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**PROBLEMS OF WAR AND OF RECONSTRUCTION**

# **COMMERCIAL POLICY IN WAR TIME AND AFTER**

**A STUDY OF THE APPLICATION OF DEMOCRATIC  
IDEAS TO INTERNATIONAL COMMERCIAL RELATIONS**

**BY**

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**WITH AN INTRODUCTION BY**

**HENRY C. EMERY**

**SOMETIME CHAIRMAN OF THE TARIFF BOARD**



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**PROBLEMS OF WAR AND OF RECONSTRUCTION**

**EDITED BY  
FRANCIS G. WICKWARE**

**COMMERCIAL POLICY  
IN WAR TIME AND AFTER**



TO  
MY WIFE

356865



## PREFACE

My aim in writing this book has not been to consider the temporary changes in industry and trade resulting from the war, nor primarily the problems of the immediate future, such as feeding starving peoples and restoring devastated areas. Although fully conscious of the importance of these questions, I have sought rather in the following pages to emphasize the permanent changes caused by the war and to discuss questions which for many years will rise for decision before the peoples of the world.

In this book I have considered only those aspects of the work of reconstruction that have to do with commercial policy in war time and after. In Part I are reviewed the diversifying and modifying influences of the war on American and foreign industrial conditions. In Part II are discussed our national commercial problems — the tariff, anti-dumping legislation, methods for preventing discriminations against our national interests, and methods for promoting, controlling, and democratizing American commercial activities abroad. Finally, Part III deals with world affairs and surveys unfair trade practices between nations and their regulation, the permanent lessons of the war in the control of the production and distribution of food and raw materials, reciprocity treaties, preferential tariff arrangements, the policy of the "open door," colonies, foreign investments and concessions, and the League of Nations.

The proposals in Part III for a series of international commissions under the League of Nations as a step toward international government is an extension of the views contained in my article published in the *Quarterly Journal of Economics*, August, 1918, entitled, "Inter-

## PREFACE

national Tariff Relations as Affected by the War," which was amplified in my address on "The Open Door and Colonial Policy" before the American Economic Association at Richmond, Virginia, December 28, 1918. The substance of both the article and the address is incorporated in this book through the courtesy of the editor of the *Journal* and the president of the Association. Portions also of my article in the *Century Magazine* for November, 1918, entitled, "Commercial Policy and the War," are used in this book with the permission of the editor, and the editor of the *American Economic Review* has kindly permitted me to reprint in an appendix my article on "The Tariff Board and Wool Legislation," published in March, 1913. In some portions of this book I have used freely information contained in reports of the United States Tariff Commission and have not deemed it necessary in every case to give detailed references. I wish here to make general acknowledgment of my indebtedness to these sources.

The views I express in this book are personal. They are not, it need hardly be said, to be attributed to the United States Tariff Commission of which I am a member because of their publication by me. I take full and sole responsibility for all statements of fact and expressions of opinion.

W. S. CULBERTSON.

*Emporia, Kansas.*

### *Postscript:*

A summary of the treaty of peace is given out as this book comes off the press. To what extent this book is in harmony with the principles embodied in the treaty, to what extent the treaty establishes a basis for a liberal international policy such as this book argues for and such as the League of Nations Covenant gave the peoples the right to expect, must, at this late date, be left to the reader to judge.

W. S. C.



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## INTRODUCTION

One of the outstanding facts of the Great War so far as the United States is concerned is clearly our closer contact with the problems of European politics. This is not merely a case of increased interest on the part of the American people, but a situation into which we have been forced by the fact that we have become participants in the determination of European policies in a sense little dreamed of a few years ago.

As a result we shall be obliged to look at many of our home policies from a broader point of view than formerly. This is particularly true of the tariff. For generations the tariff problem has seemed to most American statesmen and to the public to be a purely domestic one. We adopted tariffs partly to raise revenue and partly to protect American industry. In any case we opened or closed our door according to our own will and with little regard to the broader questions of commercial policy the world over. The tariff was simply raised or lowered according to the particular financial needs of the moment or according to the economic theory of the party in power at any given time. Furthermore, for a century all consideration of the tariff was based on the assumption that the imports into this country would be largely manufactured goods and our exports would be largely raw materials. The question was merely how far importation of manufactured goods should be restricted with the object of stimulating the growth of manufacture at home.

Even before the war the United States was beginning to assume a new position as an exporting nation, and today the situation in our foreign commerce has become nearly reversed. Manufacturers are no longer merely

## INTRODUCTION

asking for the protection of the home market in their favor, but they are asking the assistance and encouragement of the Government in securing markets abroad.

European nations have for generations framed their tariffs with a view to improving their positions in foreign competition. In tariff making there were always contemplated the problems of commercial treaties based on negotiation between different countries. Tariffs have been arranged as much for bargaining purposes as for purposes of revenue or protection to the home producer. In recent years American students of the tariff have frequently urged this as a desirable policy for the United States to follow, but to most business men such propositions have seemed rather impractical and far away. Especially in Congress has there been an extraordinary indifference to this phase of the tariff question. With this indifference has gone an almost complete ignorance as to the broader aspects of the tariff question as they appear in European discussions and as they affected European tariff policies.

In the period of reconstruction the tariff problem will play as big a rôle as ever. It is likely, however, that it will be debated along quite different lines from those so long familiar. Our tariff policy from now on should pay as much attention to the export problem as it formerly paid to the relation of imports to the home producer. In the matter of the tariff, as in many other problems formerly considered purely domestic, we are bound to be more and more affected by the general international situation. The indifference and ignorance referred to above will prove a handicap in getting the American business public, and the politicians as well, familiar with the practical working of commercial policies in this broader sense. But we are no longer confronted merely with the desirability or undesirability of a protective tariff. We must equip ourselves to understand the nature of bargaining tariffs, maximum and

## INTRODUCTION

minimum tariffs, commercial treaties, most-favored-nation treatment, anti-dumping legislation, and many others of the elements of commercial policy. Mr. Culbertson's broad survey of this whole range of topics is a most timely introduction to a field with which we are bound to become more and more familiar whether we like it or not.

Besides the fact that our tariff in any case must from now on be treated in closer relation to the complex problems of international trade, there is the further fact that it assumes a new aspect in the light of its relation to the efforts that are being made to bring about some form of international agreement for the prevention of war and the maintenance of just relations between the nations. The conclusions of Mr. Culbertson as to the relation of our commercial policy to this broader question will doubtless call out strenuous protest. They are, however, worthy of very serious attention. Furthermore, any thoughtful man before rejecting them must search his mind and see whether or not others of his convictions of a more general political nature do not force him to accept the conclusions of this book as a necessary corollary to ideas already accepted by him. If he already believes firmly in the desirability of a League of Nations, it will be hard for him, after reading this book, not to recognize that problems of commercial policy, including tariffs, involve the necessity for some kind of an international tribunal. If, on the other hand, the reader is already convinced that the idea of a League of Nations involves nothing but complications and dangers to be avoided, he will probably find that the extension of the concept made by Mr. Culbertson furnishes him with new reasons for dreading such a departure from established policies.

There is, however, a large intermediate group who find it difficult to come to any very strong conviction on the all-absorbing question of the day. They are too

## INTRODUCTION

hard-headed to believe that mankind has suddenly changed, or that mere preaching regarding the harmony of nations will alter the age-long contest for prestige and power. They see clearly the new complexities and difficulties that must inevitably arise. At the same time they are too profoundly impressed with the horrors of the last four years, too receptive to the new current of ideas, to accept the fatalistic conclusion that these national rivalries and struggles must go on in the same old way *in saecula saeculorum*. To this large group Mr. Culbertson's discussion of the manifold problems of commercial policy, on the basis of supplementing the old purely national control with a new international control, will appeal in diverse ways. Some will find in it a practical working out of principles in detail that will make the League idea more concrete and acceptable. Others will perhaps become more fearful in realizing the array of problems that are to be faced and the number of international commissions and courts that will be necessary.

The author's main contention is most clearly stated in his twelfth chapter, entitled, "Where National Control Breaks Down." Just as the old extreme theory of individualism broke down, as an adequate means of guaranteeing the individual "a square deal" in his economic life, so the extreme form of nationalism has in turn broken down. Such is the contention. The individual nation had to step in to protect its citizens, one against the other, in matters of "unfair competition." This meant various protective statutes and the erection of various administrative bodies, such as, in the United States, the Interstate Commerce Commission, the Federal Trade Commission, and the like. The same problem, it is asserted, has now arisen as among nations. "The economic life of the world has in many ways burst the confines of the individual state. In so far as it has, it is without a co-extensive control. Nations

## INTRODUCTION

have merely accentuated the fierceness of individual competition in world trade and financing. To uncontrolled individualism has been added an uncontrolled nationalism. This situation points conclusively to the necessity for an international organization vested, even if in the most rudimentary form, with the essential elements of government."

Two points may be suggested in this connection. One is that the commercial policy of nations has historically played a leading *rôle* in the continuous struggle of nations for a dominating position in the world's affairs. Political power and economic strength have gone hand in hand. Whichever of these two may have seemed the goal of national effort at any particular time, each has been a weapon for increasing the other. It is self-evident that economic strength is a vital element in securing political predominance. It is equally clear historically that political power has been used as a means, and frequently a ruthless one, of increasing economic strength. Tariffs, prohibitions, bounties, subsidies, commercial treaties, colonial policies, navigation laws, tariff wars, and ultimately real wars are inextricably bound up together in the history of national rivalry. Consequently any fundamental consideration of the problem of whether it is possible to soften, or to restrain within bounds, this struggle of nations for prestige and power must deal fully with the underlying facts of commercial rivalry and the possibility of its restraint or control. So much has long ago been granted by all thoughtful adherents of the League of Nations idea. In covering so fully the manifold phases of commercial policy in the light of his main concept, Mr. Culbertson makes a welcome and timely contribution to the chief problem of reconstruction.

The second point is that in view of the fact that we are already seriously discussing the possibility of some international control of the relations of labor and capi-

## INTRODUCTION

tal, of hours of labor and conditions of employment, the proposition for some international control of commercial policy is relatively simple. The phrase "commercial policy" has come to mean the policy of nations toward one another in favoring or encouraging their own citizens in international competition. The relations of labor and capital we have hitherto looked upon as a purely domestic problem. If we are to have international agreements as to conditions of employment and international commissions and tribunals to handle these matters, to balk at an international control of commercial policies would be to strain at the gnat and swallow the camel.

It should also be stated that, in coming to his conclusions, Mr. Culbertson has not done so lightly or without due consideration of what is enduring and valuable in the spirit of nationalism. He is not a sentimental internationalist in his philosophy. He is not an individualist free-trader in his economics. His first published work was an appreciation, written *con amore*, of the economic philosophy and policy of Alexander Hamilton, the sanest, the most profound, and the most convinced of the exponents of nationalistic economics. But he would not admit for a moment that he has departed in any way from Hamiltonian principles in his present recommendations. We should not forget that Hamilton's advocacy of a strong Federal union was looked upon by the cautious sectionalists of his time as a radical departure from safe and established policy. As Mr. E. S. Martin recently pointed out in one of his happy editorials, Washington was an adventurous soul, quite ready to meet a new situation with a bold and untried programme. The same was certainly true of Hamilton. There is no necessary and inherent conflict between the nationalism of his day and the support of a League of Nations in ours.

The writer of an introduction is allowed some per-

## INTRODUCTION

sonal reference, I believe, and I may perhaps say that it was under my direction that Mr. Culbertson made his early studies into the history and principles of commercial policy. In the work just mentioned he has been kind enough to refer to what he believes to have been my influence on his own intellectual processes. I speak of this merely to indicate my great interest in noting the point to which he has come in his consideration of the new problems that confront us as a heritage from the war. It is significant of the widespread changes in men's minds regarding the foundations of national policy that one so steeped in the nationalistic conception of society should go so far in his concessions to the necessity for some form of international control.

Having committed myself to this personal reference in order to make Mr. Culbertson's position somewhat clearer to the reader, I must continue it to the extent of saying that, although heartily recommending a serious consideration of the author's treatment of his intricate subject, I am not prepared to commit myself, at the present stage of my thinking, to accepting his final conclusions. As one who has always looked upon the struggle of human groups as an inevitable part of the processes of history, this would be hard for me. On the other hand, we have all been forced by the experience of the Great War to discard many of our fundamental concepts. Believing that, despite all theories, we must give support to any serious proposal, however experimental, that seems to give promise of preventing a repetition of recent world experiences for the immediate future at least, I am bound to admit that logically any such effort must involve some international control of commercial policy. Whether this means a permanent change in international relations, or only a necessary makeshift to tide over a period of readjustment and reconstruction, is quite another matter. There are some deep historical and philosophical reasons for maintaining

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## INTRODUCTION

that a League that is not a League *against* something, that aims at coöperation for its own sake, and is not coöperation forced by evolutionary struggle, cannot have permanent vitality and significance. But a discussion of this problem would carry us too far afield, and the present time demands a consideration of how we can help to establish peace and harmony for a generation rather than of what are the permanent forces that will be operative in future ages.

HENRY C. EMÉRY.



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**COMMERCIAL POLICY  
IN WAR TIME AND AFTER**

**PART I  
WAR'S EFFECT ON INDUSTRY**

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We need to beware of patchwork. The view of the Labour Party is that what has to be reconstructed after the war is not this or that Government Department, or this or that piece of social machinery; but, so far as Britain is concerned, society itself. The individual worker, or for that matter the individual statesman, immersed in daily routine—like the individual soldier in a battle—easily fails to understand the magnitude and far-reaching importance of what is taking place around him. How does it fit together as a whole? How does it look from a distance? Count Okuma, one of the oldest, most experienced and ablest of the statesmen of Japan, watching the present conflict from the other side of the globe, declares it to be nothing less than the death of European civilisation. Just as in the past the civilisations of Babylon, Egypt, Greece, Carthage and the great Roman Empire have been successively destroyed, so, in the judgment of this detached observer, the civilisation of all Europe is even now receiving its death-blow. We of the Labour Party can so far agree in this estimate as to recognise, in the present world catastrophe, if not the death, in Europe, of civilisation itself, at any rate the culmination and collapse of a distinctive industrial civilisation, which the workers will not seek to reconstruct. At such times of crisis it is easier to slip into ruin than to progress into higher forms of organisation.

*Programme of the British Labour Party on Reconstruction.*

## CHAPTER I

### RELATION OF COMMERCIAL POLICY TO RECONSTRUCTION

Facing the problems of reconstruction — Their nature and variety — Commercial policy as a reconstruction problem — Concepts of international commerce before the war — The permanent value of nationalism — Danger from the spirit of Prussianism — Bolshevism — The optimistic fatalist — Democracy and a constructive programme necessary — America's part in the world settlement — A new social point of view — Three stages of the industrial revolution — The partnership between government and industry.

Prussian military power has been in its outward symbols discredited and destroyed. The greatest of world conflicts, so replete with tragic happenings for men and nations, has ended in a complete victory for the western democracies. But we should harbor no delusive hope of having secured something of permanent value through military victory alone. By military success we have not solved the perplexing problems before the American Nation and the world — we have merely reached them. War is a negative thing; it has simply removed an obstruction. Victory has brought responsibility. Our task now is the rebuilding of our social, economic, and political life. We are face to face with the work of reconstruction.

The war has solved some problems, clarified others, and created still others. We live in a different world from that of 1914. It is different both in fact and in thought. While we were absorbed in the conflict of arms, important changes were wrought in the social, economic, and political structure of the world, and almost unconsciously we began to realize the inadequacy

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of ideas and institutions which before were regarded, except by a small minority, as not subject to criticism.

The problems of reconstruction are as diverse and intricate as the life of mankind. No aspect of our social, economic, and political life has escaped the modifying influences of forces released by the war. Nevertheless, almost all of these problems existed in a more or less acute form before the war. Our interest in them has been deepened because in some cases they were contributing causes of the war and in other cases the progress of the war has made it impossible longer to ignore them with impunity. In America, and in other nations too, interest has been stimulated in a range of widely differing problems. They include labor and its right to a better and more responsible place in industry, its distribution in both agricultural and manufacturing pursuits, the employment of women and children, and the proper absorption into peaceful pursuits of the demobilized soldiers, sailors, and civilian war workers. Agricultural questions, of supreme importance, relate to the price and distribution of food, the development of the public domain, loans to farmers, and agricultural coöperation and land tenure. The conservation, development, and distribution of our great natural resources — lumber, coal, oil, metals, and others — have a renewed importance as a result of our war-time experience. Taxation and other phases of public finance, the efficiency and purpose of our military establishment, religion and education, communication and transportation, corporate organizations — these and other questions must be reconsidered in the light of recent happenings. Even our social, economic, and political institutions are being put on the defensive. Since the Russian revolu-

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tion we do not take so much for granted. As important as any of the problems of reconstruction are those of commercial policy. We are thinking, more now than before the war, of the wider aspects of competition between nations — the tariff, foreign trade, and the activities of our commercial interests abroad.

The international problems of reconstruction are more baffling than the domestic problems. Territorial, dynastic, national, racial, and social questions which existed before the war and were contributing causes of the conflict are to be passed on for solution during the reconstruction period. Poles, Czecho-Slovaks, Jugo-Slavs, and Armenians deservedly seek independent national existence. Dynastic houses, divested of their autocratic power, plot and hope for a reaction that will serve their selfish ends. Racial antipathies seem at times to present problems which defy solution. Revolution in some countries threatens to destroy the last securities of man's common life. Land-owning, trading, and investing classes, propagating their own interests in the guise of patriotism, becloud the issues of a democratic peace. Reconstruction in world affairs is in fact a complex task involving military control, territorial realignments, the adjustment of racial rivalries — often embittered by oppression and turned into unnatural channels by propaganda, colonial claims and policies, the protection and education of the economically backward peoples of the world, the regulation and restraint, where desirable, of trading and financial interests, and the devising of an international organization that will tend at least toward the prevention of a recurrence of world wars.

Reconstruction should mean much more than a mere rearrangement of the world that existed prior to 1914. It should bring revolutionary changes, but by orderly

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(parliamentary) means. Let us consider carefully what it is we are setting out to rebuild, what it is we are to construct on the foundations of the past. The democratization of our national and world life will in many places run counter to exclusive class and national interests which can no longer plead a law or a tradition as alone a sufficient justification for their maintenance. Ideas of "natural right," "vested interests," "personal liberty," and "national sovereignty" should no longer bar interference with conditions that the war has demonstrated to be intolerable because in many cases they made the war possible. No lasting peace can be brought about if we fail to reëxamine the fundamental relations of men and nations and to act upon the knowledge thus obtained.

It is the function of this book to examine those aspects of the work of reconstruction that have to do with commercial policy. The conquest of nature and the methods adopted by man to supply his material wants, closely correlated as they are with the progress of man's moral and spiritual life, make interesting and important chapters in the annals of the human race. Production and trade have always been vital, and as society has grown more complex and as government has concerned itself more with the interests of the people and less with the aspirations of reigning dynasties, they have increasingly absorbed the attention not only of business men but of statesmen. The importance of the economic factor in reconstruction must be evident to the most casual observer of the myriad activities of men in agriculture, mining, manufacturing, shipping, trading, and finance. These activities have not always resulted in harmony; they have led at times to antagonisms, rival-

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ries, and even wars. Intensified by racial feelings, national aspirations, and dynastic ambitions, they have unquestionably contributed in large measure to international conflicts.

Under these conditions we might expect to find, at least among democratic peoples, strong political sentiment in favor of a plan which, while just, would prevent commercial and financial rivalry from dragging nations into war. But the advocacy of such a plan has not in the past gone much beyond the stage of academic discussion. Problems of commercial policy have almost universally been considered wholly from the standpoint of individual nations seeking their own advancement. The commercial nations have either sought their selfish, narrow ends under the inspiration of Machiavellian principles by any method that would achieve their purposes, or they have assumed the complacent position that they are always right and that whatever benefits them will benefit all others. The deliberate use of trade and finance by some nations to further selfish ends and the studied indifference to them of others were large factors in making inevitable the most terrible war in history.

Not infrequently when the world aspect of commercial policy is dwelt upon the conclusion is hastily reached that nationalism is an evil that must be done away with. Patriotism is labelled chauvinism and is held up as one of the sinister influences of the world. National aims, aspirations, and ideals are described as relics of primitive life. Such a position fails to take account either of the facts or of human needs. The exclusive nationalist who sneers at international action is no more objectionable than the advocate of a world state who, with equal lack of insight, forgets the importance and

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value of the nation as a unit of society. As a matter of fact, both national and world action are necessary in the constructive task which is before us. We should avoid discriminatingly the evil tendencies in both, recognizing that each has its proper sphere. We shall not progress far toward the goal of justice and right until we lay down as one of the first principles that nationalism and internationalism are not antagonistic, but complementary, ideals. There are commercial problems that now and always will belong to the nation and that can be solved only by it. But there comes a time in the consideration of the problems of trade and finance when the national organization is inadequate for their solution and some degree of international action becomes imperative.

Military victory should sober rather than elate us. The crushing of Germany has not removed all of our enemies. The breaking up of organized Prussianism in Central Europe is a memorable stage in the progress of democratic ideals and a step toward the universal acceptance of the principles of responsible government, but in the days of reconstruction the spirit of the Prussian in many a tempting guise will lurk in the domestic and international programmes that will be brought forward. Reactionaries, having dwelt too long amid the musty traditions of the past, will appear with their plausible warnings against innovation. They will oppose any departure from the old chaotic order of things because its preservation is profitable to them and to their class. Such men, regardless of where they live, are Prussians at heart. If their counsels prevail in the final settlement, the Allies will be accomplices to the very thing that we denounced in Germany.



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Bolshevism is a symptom of an unjust social condition and a warning that fundamental reforms are necessary. Russia is being visited today with the sins of generations that have exploited and trod upon the masses. Bolshevism, with its misdirected enthusiasm and programme of destruction, may, like war, serve to remove an obstruction, but it offers no constructive principles for guidance in the future. We shall not get rid of it, however, by denouncing it. Its antidote is a constructive programme that will carry our much lauded principles of democracy down into and through the very structure of our commercial and industrial life.

Those optimistic fatalists who tell us that people are so appalled by the losses of the war that they will never again draw the sword are not the least dangerous of the enemies of a sound policy of reconstruction. They talk confidently of the world's being on the threshold of a new era when wars will be no more. They say also that people have learned to organize and pool their resources for war and that they will naturally continue their co-operation during peace. But too often definite plans for achieving this complex result are lacking. There is little comprehension of the difficulties which lie ahead or of the selfish and unscrupulous policies which must be combatted lest they be adopted by nations, dynasties, and commercial interests. We may be very certain that a permanent and just peace will not come merely because the war has been full of horrors and tragedies. The cry "never again" is not a new one. Nothing exists in the present situation that will insure the world, as a matter of course, against following the old circle of economic rivalries, balancing alliances, military preparations, and war.

The way to success in the days of reconstruction lies

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neither with the paralyzing pessimist or selfish reactionary who feels that we must always follow the errors of the past, nor with the Bolshevik, nor with the planless optimist who believes that the new order of things will just happen. It lies with those who, giving full weight to the background of the war and holding firmly to the ideals of democracy, plan with insight and work out to its minutest detail the constructive programme of a permanent peace.

In the work of rebuilding the world the American nation has a unique and important part. We entered the war in the spirit neither of conquest nor even of revenge. We saw the world menaced by a power which, if successful, would destroy all that this country has stood for. We were willing to give without stint in order that national and international justice might prevail and that there might be established in the world the democratic principle in political and commercial affairs. We felt a common interest with the peoples of Italy, France, Belgium, Great Britain, and the self-governing British dominions in their long and bitter struggle against the military powers of Central Europe. We felt that they were fighting our battles. However varied the individual aims of the nations engaged in the great struggle, undoubted evidence that our past and future were bound up with theirs led us inevitably to cast our lot with them. Our armed forces on the sea and at Château Thierry, St. Mihiel, and along the Meuse translated American vigor and enthusiasm into war. They went into the war without a selfish motive. They faced a hard task in the spirit of sacrifice. They were willing, if need be, to lay down their lives, as so many of the brave Allied troops had done, in order that the world

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might be redeemed. Now that their work is so nobly accomplished, we should not fail to carry on in the same spirit of devotion the work of healing the wounds of the nations. Vindictiveness, punishment, and national selfishness, if allowed to govern in the readjustments, will return in future generations to plague the world. The reactionary statesmanship of Metternich was triumphant at the Congress of Vienna, but only temporarily, for it forced the peoples of Europe into revolution. Germany in 1871 took from France the provinces of Alsace and Lorraine and thereby made reconciliation impossible. Our own Civil War was followed by an illiberal and irrational reconstruction which fills some of the darkest pages of American history. History has many other warnings to those on whom the direction of national and international policies rest. The world will have no gains to offset the losses of the war if the Allies content themselves with destroying Germany's militarism and national power and at the same time merely build up their own. That procedure will change the pawns in the game, but not the game. Unless the spirit of sacrifice guides the councils of the Allies in the constructive work before them, we may expect the world to drift back into the evils of international anarchy. Unless the world view of affairs in some degree softens the exclusive national views of some of the leaders of the nations, the men who have laid down their lives in the cause of better things will have died in vain.

The task before national legislatures and diplomats of defining our ideals and converting them into laws and treaties is a task quite as essential as and infinitely more difficult than the raising of armies and the building of navies. The days immediately before us are critical.

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The war has profoundly altered the economic conditions within every nation. It has modified not only our way of doing things but also our way of thinking about them. It has revolutionized our ideas concerning industry and trade. Old theories of commercial relations have been called into question or scrapped. New ideas are finding ready acceptance. More than ever before people are interested in what ought to be rather than in what is.

In the United States thousands of business and professional men by giving their money and talents in the public cause have felt the broadening and inspiring effect of public service. They have learned to sacrifice and they have enjoyed it. They have submitted to the restrictions of the War Trade Board and the War Industries Board and have learned to recognize that even in what they once thought was their private business the public is more controlling than the private interest. They are now more willing to look upon their businesses not only as organizations for private gain, but as trusts which they hold for the public, and upon themselves not merely as seekers after gain, but as trustees.

A more general recognition of the importance to society of the producer, whether on the farm or in the factory, has come as a result of our war experiences. The war could not have been won without the coöperation of the farmer, the laborer, the manufacturer, and the merchant. Back of the armies in the field, who deservingly received our plaudits, were the men and women who toiled in factories; the chemists, metallurgists, and other experts who worked many weary hours on the problems of war material; and the farmers, manufacturers, and merchants — all of whom deserve praise for loyalty and credit for helping to win the war. Modern war is economic as well as military in its methods.

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Germany crumbled at last in large part because her economic system could no longer bear the strain of war. The Allies achieved success in large part because of their control of raw materials and because of their effective economic organization. We should now look upon industry and commerce as part and parcel of our life. We should neither fight it nor ignore it. We should devise democratic means of directing and controlling it in the interests of public welfare.

More than anything else perhaps the war has emphasized the world-wide influence of trade and industry. Industrial progress or change in one country can no longer be ignored in others. Policies of trade and finance pursued by one nation are of vital concern to others. Nations individually must consider their problems in the light of world tendencies. More important still, nations must seek collectively the solution of the great questions which in the past have too frequently been left to take care of themselves.

The war has made us more internationally minded than we were in 1914. At the same time it has increased the military and economic strength of our nation. How shall this strength be used? Surely not to further selfish national interests that will rouse the jealousy of other nations and sow the seeds of future strife. Rather let it be used to influence sceptical, and perhaps reluctant, peoples to accept ideas on which a just and permanent peace must rest.

Important as the effect of the war has been in modifying the competitive position of nations in industrial matters and in intensifying competition, more important and fundamental changes have taken place which our nearness to our problem may prevent us from clearly

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discerning. Industry is the concern not merely of business men but of all society. It is not an individual but a social possession. Ownership no longer means the right to do as one pleases with the business under one's control. Industry has become so powerful, it has become so vital to the very existence of society, it so intimately concerns the welfare of many people, that the old doctrine of freedom as applied to business has been discarded, and business men, whether they like it or not, are being treated as trustees of the interests they hold. In order to appreciate fully however, what this new attitude toward industry and trade implies, we should look back and consider how industry has come to occupy the important place it now holds in our common life.

In the latter part of the 18th century there began a movement that has come to be known as the industrial revolution. Before this epochal change began, production was carried on in the home or in small shops. Goods were made largely by hand. Division of labor was not carried far. The handicraftsman and the merchant were often one and the same person. The technical methods used were handed down from father to son and in essentials were centuries old. Yarn was spun on the old spinning wheel; cloth was woven on the hand loom; shoes were made by the cobbler.

Under the influence of the revolution machinery supplanted hand production; steam was harnessed and did the work of many human beings; factories were built and in them were gathered laborems who no longer controlled their product but who worked for a wage. A series of great inventions brought about these changes. In 1769 the water-frame was invented by Arkwright and the use of water power in spinning was made possible.

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In 1770 Hargreaves patented his spinning jenny. Nine years later Crompton further improved spinning machinery by inventing the so-called "mule." With these spinning inventions more yarn could be spun than the old hand looms could weave. This situation was reversed in 1785, however, when Cartwright invented the power loom. Whitney invented the cotton gin in 1792 and another obstacle to rapid production was removed. Steam meanwhile had been applied to machinery. Watts' steam engine was invented in 1769 and was quickly utilized in spinning and weaving, in the iron industry, and in transportation. These great inventions were only a beginning. Machinery was gradually applied to every industry and every walk of life. No one can look today at a textile mill, a steel rolling plant, an ocean steamer, a modern farm machine, without marvelling at the ingenuity of man.

These inventions stimulated production. The whole structure of society was changed. The factory system came into being. In England, where the influence of the revolution was most acutely felt, the country districts were depopulated and cities grew apace. Society tended to become divided, so far as production was concerned, into the "capitalists" or employers and the laborers who worked for a wage. Wealth accumulated in the hands of one class; the other lived often in squalor and want, herded in dismal slums of overcrowded and unsanitary cities. The labor problem came into existence.

Those who were interested in the expansion of industry and trade were supported in their plans by the philosophy of individualism which was being advanced by an increasingly influential group of economists. This *laissez-faire* doctrine, as it was called, argued that if

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men were permitted to pursue their own interests unrestrained, their action would result in the best interests of society being served. That government was said to be best that governed least. Free competition with a minimum of government regulation was conceived to be the best for society. An "invisible hand," it was argued, guided the selfish interests of man so that what he did in his own behalf promoted also the social welfare.

As a matter of fact, *laissez faire* promoted, not human welfare, but the class interests of the mill owners and the great merchants who were supplanting the land-owning and clerical classes as the chief influences in European Governments. Individualism had some beneficial effects in breaking down old traditions, outworn regulations, and false economic theories, but it was entirely inadequate as a social philosophy for the great industrial society which was developing. Free competition between the capitalists and laborers was unequal, and resulted in the exploitation of labor. The story of the struggle for the adequate protection of labor by law and by its own organized effort cannot be told here. But so firmly was the idea of "liberty," of "freedom," wrapped up with the interests of the ruling class that only slowly was legislation adopted to correct the evil tendencies of the doctrine that a man could do as he pleased with his "private property."

In the meantime there had occurred a marvelous expansion of industry. The industrial structure which today we take as a matter of course is largely a product of the 19th century. Enormous quantities of goods were produced at relatively low prices. The ordinary man could purchase things which in the 18th century were only for the rich. Goods accumulated and demanded new markets. Then came the great events



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of the second phase of the industrial revolution. The world witnessed the coming of the railroad, the steamship, the telegraph, and the telephone. Transportation and communication welded the world together. A journey that to Marco Polo was as a historical event became a mere business undertaking.

Transportation and communication, developed by industry and trade, in turn stimulated them. With the increased industrialization of Great Britain, and later of the United States and of Germany, came the seeking for raw materials and markets in the less economically advanced parts of the world. Colonies hitherto almost forgotten became important. "Spheres of influence" were carved out of Africa and Asia. The new large-scale industry depended for its effectiveness on division of labor, and division of labor was limited by the extent of the market. Mass production for a great market was the keynote of the new industrial *régime*. More goods were produced than the home market could absorb at a profitable price. Foreign markets became essential. Following the growth of industry and the extension of the market came the export of capital. Investments and concessions abroad were in some cases more profitable than home enterprise.

The idea of freedom and *laissez faire*, limited in some degree in domestic affairs, reigned supreme in foreign business ventures. Governments, instead of exercising restraint over their citizens, backed them up. Nationalism was perverted and developed into a combative imperialism. The Great War was in large measure the product of the second phase of the industrial revolution. It also brought it to a close.

Under the necessity of war industry became the

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servant of society. Competition was restricted, output was regulated, prices were fixed, profits were limited. Man demonstrated that he could control the so-called economic laws which some individualists said controlled him. If there is one lesson that the war has taught clearly, it is that free competition—the doctrine of *laissez faire*—is a failure in domestic and particularly in international life. The war initiated the third stage of the industrial revolution. In it mankind will undertake to direct industry and trade in such ways as to prevent conflicts between nations and to achieve the nobler aims of society. Democratic ideas which have determined our political institutions will become also the test of adequacy in the economic relationships in both national and international affairs.

Industry and government were drawn close together by the war, and their coöperation is likely to be one of the permanent results of the great struggle. Peoples have realized as never before how vital to their very existence their industries may be. They have seen clearly that modern armies and navies cannot fight if the men and the women in the factories and on the farms will not work. Government has interfered with industry more in Great Britain, France, Germany, and Japan than in the United States, chiefly because these nations were longer in the war. But even here production was curtailed in non-essential lines and stimulated in essentials. Raw materials were controlled and allocated. New industries were subsidized. Imports and exports were regulated for the accomplishment of the Government's purpose. Industry was made more efficient by improved management, automatic machinery, and the standardization of products. The benefits of wide research were made available for practical use. The

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facilities of production and distribution were concentrated and the inefficient eliminated.

This partnership between Government and industry will not be broken up quickly, if at all. The supplying of the needs of peoples and the repairing of the wastage of war are of too vital import to permit the economic system of nations to return to the old order of unrestricted competition. The dangers of uncontrolled trade and finance are now apparent and the very essence of progress requires a constructive national and international programme that will meet these dangers squarely. The forces of government as well as of industry and commerce must be turned into channels that will serve, not destroy, men. We have seen their dangers as masters; we have learned and shall not forget their usefulness as servants.

The fighting in France, Belgium, and Italy was not merely blasting the Allies' victorious way through the German lines; it was also shattering a political and economic system that had fastened itself on the world. Peoples are no longer satisfied merely with political democracy. They are demanding the democratization of industry, trade, and finance, both within the nation and in world affairs. This book is written in the firm belief that society need not always drift, and that the peoples of the great nations, having a vision of better things and an aspiration to attain them, can, through their leaders, act to achieve their purpose. It is written in the hope that it may be a contribution toward the establishment of a body of opinion in favor of a liberalized commercial policy—a policy that takes into account the essential interests of individual nations, and at the same time subjects truly international problems to world control.

## CHAPTER II

### EFFECT OF THE WAR IN DIVERSIFYING AMERICAN INDUSTRY

America's industrial position in 1914 — Diversifying influences set in motion by the war — New glass products, including laboratory and optical glass — Surgical instruments — Sueded gloves — Venetians — Camphor.

At the time of the outbreak of the war in Europe in 1914 the United States was recognized as one of the leading industrial nations of the world. The number of manufacturing establishments operating in the country just before the war was in round numbers 275,800, employing, on the average, approximately 7,000,000 wage earners. The annual value of the products turned out was a little over 24 billion dollars.<sup>1</sup> This production represented a wide range of industrial activity. The value of manufactured food products was in round numbers \$4,800,000,000; of textiles, \$3,400,000,000; of iron and steel products, \$3,200,000,000; of other metal products, \$1,400,000,000; of lumber products, \$1,600,000,000; of leather products, \$1,100,000,000; of paper and printing, \$1,450,000,000; of liquors and beverages, \$770,000,000; of chemicals, \$2,000,000,000; of stone, clay and glass products, \$600,000,000; of tobacco manufactures, \$490,000,000; of vehicles for land transportation, \$1,000,000,000; of railroad repair shops, \$550,000,000; and of products of miscellaneous industries, \$1,750,000,000.<sup>2</sup>

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<sup>1</sup> *Abstract of the Census of Manufactures, 1914*, p. 29. See Appendix I.

<sup>2</sup> A more detailed statement is given in Appendix I.

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One important effect of the war was to diversify further the already complex industrial life of the United States. The curtailment and final stoppage of exports from Central Europe compelled the United States to erect or extend factories to produce goods that had been obtained in whole or in part from belligerent countries. The blockade of Germany established by the British Navy brought forcibly to our attention the fact that in the case of a number of essential commodities we had in this country neither the plant nor the organized technical skill necessary for their production. The curtailment of production in some lines in Great Britain resulting from the taking over of industry to supply war demands had a similar but less revolutionary effect on American industry. The British Government found it necessary to use the productive capacity of some factories for the products of which the United States had been the chief market, and to meet this decline in foreign supplies American manufacturers increased their production. Shortage of shipping was also a stimulus to the increasing diversification of American industry. There was a tendency to produce at home those products which the uncertainties and the scarcity of ocean shipping made it increasingly difficult to obtain from abroad. Prior to April, 1917, the absorption of the European nations in the great struggle left their foreign markets unsupplied, and American industries were called upon to supply a part of this unsatisfied demand. The tremendous increase of export trade brought in its wake a corresponding development and extension of domestic industry and commerce. Finally, there came the enormous demand for war supplies, first by the Allies, and then, after April, 1917, by our own Government. All of these influences brought to bear on Ameri-

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can industries by the war were constructive in effect. They built up, they extended, they diversified our industrial life.

Some of the most interesting effects of the war were to be seen in industries which, if judged by quantity of output, are relatively unimportant. Yet the war proved in many cases that the existence of such industries in this country was vital to our military security and economic prosperity. The industrial effects of the war may be shown best by selecting for detailed description in this and the following chapter a few of the industries in which the changes resulting from the war conditions were most striking and at the same time most typical.

At the time of the outbreak of the war in Europe, the American glass industry was supplying the domestic market with a large proportion of its window glass, bottles, lamp chimneys, and pressed glassware. The up-to-date American mills were equipped with excellent automatic and semi-automatic glass-blowing machinery. We were dependent upon Germany and Austria, however, for certain special but very important glass products. These included chemical or laboratory glassware, important not only in our universities but also in the research departments of many of our great industries, and optical glass of the highest grade, used for lenses of field glasses, range finders, and periscopes. Although these products were made to some extent in the United States, we were largely dependent on foreign countries for our supply.

Laboratory ware includes flasks and beakers; graduated ware, such as burettes and pipettes; apparatus for testing; extraction apparatus and condensers; sugar-testing ware; reagent bottles; and ground ware. Some

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of these products are required by many of our important industries in their research work—the testing of processes and the analysis of materials and products. Laboratory tests and analyses are essential to the technological processes of such varied industries as iron and steel, sugar, fertilizers, rubber, cement, soap, oil refining, textiles, explosives, dyes and other chemicals.

American glass manufacturers were called upon to supply the domestic demand for chemical and scientific glassware. The war, by eliminating foreign competition, gave them a free field for development. The research and experimental work done in Europe and made public enabled them to prepare satisfactory combinations of materials. The United States Bureau of Standards coöperated in improving the quality of the war products. One of the leading manufacturers of American chemical glassware described his experience thus:<sup>3</sup>

When we decided to go into this line we employed the best chemists we could find. The idea was to get quality, so that after the war our quality would be known and we would have a chance to sell on a quality basis. We experimented and we made glass which, from all chemical standpoints, was superior to the original German production. The ingredients and the way they are mixed are probably different. It is a superiority that we hope will continue indefinitely, because the demand in this country has been for a better quality. The distinctive requirement is for quality, glass that will stand the laboratory tests.

The technical problem is in the mixing of the materials, and it requires skill in the manufacture of it. We had trouble in getting skilled labor with technical experience. It took us about six months to really get a production that was satisfactory.

Optical glass is used for the lenses of field glasses,

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<sup>3</sup> United States Tariff Commission, "The Glass Industry as Affected by the War" (1918), p. 16.

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range finders, periscopes, and other optical instruments. Its production was perfected in Germany after careful experimentation and scientific research. The best known factory in this line is the Jena Glass Laboratory. It began in 1884 to produce optical glass in commercial quantities. Its founders were aided in their research by liberal subsidies granted by the Prussian Government. During the year ending June 30, 1914, the United States imported rough-cut and unwrought glass for optical purposes valued at \$617,700, almost one-half of which came from Germany direct. This glass was ground and polished in this country. During the same year the importation of lenses and optical instruments amounted in value to \$720,560.

The decline in imports of optical glass, owing to the blockade of the British Navy and also to the commandeering for war purposes of the relatively small production in the United Kingdom and France, stimulated production in this country. Optical instruments are a vital necessity in military operations, particularly for artillery. Unless equipped with accurate fire-control instruments, modern armies cannot operate. The greatest skill and technical knowledge are required to prepare glass that will pass military tests. No small task, therefore, confronted the American manufacturers in developing this new branch of the glass industry. With the assistance of the Carnegie Institution of Washington and the Bureau of Standards the difficulties were surmounted and excellent optical glass was produced in quantities sufficient to supply our military needs.<sup>4</sup>

Great Britain, like the United States, had depended before the war on Germany for the greater part of her supply of optical glass. Early in the war her military

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<sup>4</sup> *Ibid.*, p. 12.



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operations were hindered by a shortage. The report of the British Committee on Commercial and Industrial Policy, after pointing out the dependence of Great Britain upon Germany for optical and chemical glass, continues:<sup>5</sup>

The supremacy of the German manufacturers was due not only to their superior scientific knowledge and organisation, but also to the support derived from the steady requirements of a large standing army. Since the outbreak of war it has been necessary practically to create the industries in this country from the foundation and the efforts made with Government assistance under a department of the Ministry of Munitions specially established for the purpose appear already to have met with a considerable measure of success.

The main lines of action have been the making of agreements by the Ministry of Munitions, and, where necessary, by the War Office, Admiralty, and Ministry of Munitions jointly, with selected firms, under which in return for Government financial and other assistance they have created plants to produce a required output of adequate quality and variety under specified conditions, the fulfilment of which is supervised by a Government representative with wide powers, including the control of prices and methods of manufacture and the enforcement of a fair-wage clause and the right to secure the training and employment of female and unskilled labour. In certain cases such agreements have been made for a period of 10 years, and provide for the maintenance of a specified war reserve of the material manufactured and the availability of the plant for Government use in the event of future hostilities, and an important feature is an undertaking by the departments concerned to specify in purchasing optical instruments that they shall be fitted with British-made glass. In other cases advances or other arrangements have been made for the erection of buildings and the supply of modern machinery. Scientific assistance in solving numerous problems has been given by the Ministry of Munitions, and by numerous and eminent scientific men and institutions through the Ministry. . . .

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<sup>5</sup> British Blue Book, Cd. 9032 (1918), p. 7.

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We are satisfied that the continuance of commercial and scientific assistance and of detailed control on the lines already followed will be necessary for a considerable period. This necessity is, we believe, fully admitted by the manufacturers themselves, who recognise also that such assistance must have as its object and condition the attainment and maintenance of the highest standards of quality.

It is clear, moreover, that, in order that the industries may have time and opportunity to adapt their organisation to peace conditions and to train an adequate supply of skilled workers, very special measures of protection against foreign competition will be required at the outset, in view particularly of the great strength and reputation of the German firms. Having regard to the peculiar circumstances of the industries in question, we think that these measures will be regulated most effectively by means of the prohibition of imports from whatever source, except under license, of certain kinds of glass and optical instruments to be specified from time to time by the organisation referred to in the following paragraph.

America at one time had a good sized surgical-instrument industry, but about 1900 the Germans began to win the American market from our manufacturers. Their competition just before the war was being felt keenly even in the few lines in which we had for many years retained the advantage. In 1914 from 75 to 90 per cent. of our domestic consumption of instruments was being imported, and American production was confined to instruments of brass, copper, and other non-ferrous metals, to large iron instruments, such as veterinary tools, to hypodermic needles, and to the filling of special orders. Germany's position had resulted from well organized large-scale production, highly skilled laborers, relatively low labor cost, efficiency in selling, and a good supply of raw materials.

The curtailment of imports from Germany in 1914 created a shortage of steel instruments in the United

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States and stimulated domestic production. Our industry expanded rapidly. By 1917 the output of soft-metal goods had doubled, and the increase in the production of steel instruments was between 200 and 300 per cent.

An added stimulus came to the surgical-instrument industry when the United States entered the war. The Army and Navy had to be supplied. The result was, of course, a tremendous increase in output, but a more significant and important development was a change in the processes of making the instruments. Before the war, on account of the great variety of types and patterns called for by American surgeons and on account of the limited demand, instruments were made largely by hand. The war brought a change destined to be permanent. Standardization was promoted by the restriction of essential instruments to a list of about 800, drawn up by the Council of National Defense. The industry installed automatic machinery and labor-saving devices such as drop forges. Small-scale production and hand labor gave way to large-scale mass production and machine methods. The industry was adapted, to a large extent, to the typical American industrial technique.

The abnormal demand both for military and civilian uses and the resulting rise in prices brought an additional factor of great importance into the situation. Importations from Japan began in the fall of 1916. Orders were placed in Japan for instruments which were copied from American models. The American demand stimulated and fostered the development of the Japanese industry. At first the lack of skilled workmen, tools, and materials resulted in an inferior product, but the quality improved and the prices remained surprisingly low. We have here a good example of the far-reaching effect of the war. The removal of Germany as a com-

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petitor stimulated the development of the surgical-instrument industry in the United States but it also stimulated the growth of the new industry in Japan. When Germany again becomes a competitor, we shall have a complex situation to deal with.

Germany was the chief competitor of this country before the war in the knit-goods industry. Not only did she share our markets in almost all lines with the domestic manufacturer, but in the case of at least one line, that of sueded cotton gloves, she was in complete control. Though the cheaper cotton gloves were made extensively in this country, there was practically no production of sueded or "chamoisette" gloves.

These gloves are made from a fabric which is produced by a very special process. The Germans had mastered this process and were making a closely knit product, with a velvety finish, closely resembling chamois. Over a million dozen pairs of sueded gloves were imported into this country annually before the war. The German goods ceased coming in 1916. At the same time the demand here increased owing to the increased price of leather gloves. American manufacturers, most of whom had been manufacturing silk or leather gloves, lingerie, or other kinds of women's apparel, then undertook the making of sueded gloves. In 1918 they made 1,300,000 dozen pairs, or more than the pre-war importation. The American product is not so velvety as the German, but it is more elastic and less baggy.

Recently the Japanese, who began to make cotton gloves in 1914, have been making sueded gloves, and their competition, as well as that of the Germans, is to be considered after normal conditions are restored. Just how severe and how destructive competition will be, it is

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impossible to forecast. German costs will doubtless differ greatly from those prevailing before the war. The Japanese industry is new, and little is known of costs in Japan. Since the outbreak of the war, the British also developed the manufacture of sueded cloth both for glove making and for other purposes, and in export markets their products have already entered into competition with the Japanese product. But American manufacturers are paying particular attention to quality, style, and pattern, and may be able to hold their ground even against lower-priced importations.

Venetians,<sup>6</sup> a cotton fabric used extensively for the lining of cloaks and coats, for making bathing suits, and for similar purposes, illustrate still another influence of the war on American industry. During the last few years they have constituted the largest single line of cotton cloth imported. Before the war fully 90 per cent. of all the venetians used in the United States was made in the Bradford district of England, where particularly the finishing of these fabrics had reached a high state of perfection.

The war hampered and restricted the production of venetians in Great Britain, and the English mills were not able to supply the full needs of the growing American market without considerable advances in price. American manufacturers were stimulated to increased production to meet the increased demand, and in 1917-18 they were supplying probably one-half of our domestic needs. Because of the rising costs in Great Britain, they were able during the war to undersell the English product; but with the removal of the added protection

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<sup>6</sup>United States Tariff Commission, "The Import and Production of Cotton Venetians" (1919).

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afforded by the difficulties that hampered the Bradford producers, by the enhanced transportation costs, and by the increased burden of *ad valorem* tariff duties based on inflated prices, when international competition resumes its normal course, the American industry may have difficulty in holding unaided even that share of the American market that it now supplies.

Restrictions on shipping<sup>7</sup> have had in some cases effects on industry similar to those of the curtailment of imports by the blockade of the Central Powers. The effects that these restrictions had on the supply of raw materials and the development of substitutes therefor are important and interesting,<sup>8</sup> but we are concerned here mainly with the development of new processes for making in the United States finished products that were formerly imported.

One of the most interesting results of the operation of this influence is presented in the case of camphor. Natural camphor is a product of a large, evergreen tree which is indigenous to Japan proper, Formosa, a Japanese possession, and China. Japan's position in the camphor trade can fairly be described as monopolistic. Some camphor is supplied by China, the Dutch East Indies, and Florida, but not in sufficient quantity to have an important effect on the market. Formosa, the most important single source of supply, became Japanese territory at the close of the China-Japanese war. In 1899 the Japanese Government took over the Formosa camphor industry, and introduced radical

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<sup>7</sup> The occasion and nature of these import restrictions are fully described, in this series, in Louis E. Van Norman, *War Time Control of Commerce*.

<sup>8</sup> For a detailed account of these effects on the mineral industry see, in this series, George Otis Smith, *The Strategy of Minerals*.

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reforms in the trade. In 1903 the scope of the Government monopoly was extended to Japan itself. The Government licenses producers of camphor and camphor oil, and purchases all their product at a fixed price. About 70 per cent. of the world's supply of camphor is used in the manufacture of pyroxylin plastics, an industry which has grown rapidly in recent years, particularly in America.

Camphor can be produced synthetically, that is, by chemical combination of other materials. This artificial product has exactly the same characteristics as natural camphor except that it is what is called optically inactive. Numerous researches have been made to perfect the processes for making synthetic camphor. Oil of turpentine is the basic raw material used.

So far as is known, the only plant producing synthetic camphor on a commercial scale in the United States is the one established since the outbreak of the war near Wilmington, Delaware, by E. I. duPont de Nemours and Company. The plant of this Company has a capacity of 3,000 pounds per day. The construction of an addition to it which will double that capacity has been authorized.

The war has thus demonstrated that industries small in the amount of their output may be vital to the nation. Letting industry alone or merely protecting it by import duties against foreign competition does not necessarily result in the development of the sort of industrial life most desirable from a national standpoint. Before the war it was thought by some a sufficient answer to say that we could not compete with Germany in high-grade glassware and surgical instruments. That is no longer a sufficient answer. We must go a step further and ask

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how essential the domestic production of this and other products are to our national life. Other industries not to be classed as essential, such as venetians and sueded gloves, may be entitled to consideration from the Government that will enable them to compete on equal terms with foreign rivals. The diversification of the industrial life of a nation is desirable, and it may be wise public policy to protect industries that develop the natural and human resources of the nation even though there may be, temporarily, a slight economic sacrifice.

Not the least interesting, because an unexpected, result of the war was the direction of public attention to the pre-war control by Germany of a number of important industries and to the development under war conditions by other countries of competition therein. Some cases, which have been discussed in this chapter, illustrate this point, but even more conspicuous, interesting, and important from the standpoint of national policy are cases in the chemical industry to which we now turn.



## CHAPTER III

### THE CHEMICAL INDUSTRIES: I, UNDER BLOCKADE AND EMBARGO

Curtailment of imports of chemical products from Central Europe  
— The situation in the dye industry in 1914 — Effect of the shortage of dyes on American textile mills — Growth of the American dye industry — Tariff on intermediates and dyes — Effect of America's entrance into the war in April, 1917, on the dye industry — Germany's natural advantage in potash — Growth and nature of the American potash industry — Potash beds in Alsace — Germany's pre-war control of thorium nitrate — Its production in the United States — Undesirability of dependence upon one nation for supplies of essentials.

Germany in 1914 held undoubted supremacy in many branches of the chemical industry, particularly those requiring scientific knowledge and technical skill. In the production of some chemical products her position may fairly be described as monopolistic. The importance to her of this advantage was increased by the fact that chemicals are frequently the raw materials of other industries. By controlling these chemical products Germany actually or potentially controlled in some degree industrial activities in other countries. Before the war consumers in the United States found it profitable to purchase the German product because it was reasonable as to price and of high quality. In some cases there was no alternative source of supply, even if quality and price were not altogether satisfactory. The national significance of our dependence upon Germany for essential products was not appreciated, even if known, by the public.

The effect of the war on the chemical industry due

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to the curtailment of imports from Germany should be distinguished from that due to the demand for war supplies which will be considered in the following chapter. Before the United States entered the war, permanent changes had come about in the American chemical industry as a direct result of the German embargo and the British blockade. The isolation of Germany brought our dependence upon her for essential products dramatically to America's attention. In some industries, for example, the textile industries, there resulted what were almost panic conditions. To American business men and chemists was given an opportunity to demonstrate what their resourcefulness could accomplish in an emergency. The curtailment of imports from Germany taught us more about the interrelationship of industry than we could have learned in years of normal conditions. The shutting off of German supplies has led to the establishment in the United States of industries which will be permanent and which will end the monopoly formerly enjoyed by Germany in some lines. The characteristic effect of the war conditions was most strikingly evident in industries producing coal-tar dyes, potash, and thorium nitrate, and these three, therefore, will be considered in some detail.

When war came upon the world in 1914, Germany was producing approximately three-fourths of the world's supply of coal-tar dyes.<sup>1</sup> Even this, however, does not indicate the full measure of the world's dependence upon Germany. Dyes are made from intermediates, which in turn are made from crude coal-tar products. The making of these products, and particularly the

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<sup>1</sup> The world's production of coal-tar dyes in 1914 was as follows (Department of Commerce, Special Agent Series No. 96, p. 30):

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manufacture of the intermediates, involves in many cases technical knowledge of the highest order. Secrecy and protection through patents of the processes elaborated by German chemists after many years of intensive and painstaking research made competition difficult. The intermediates were the keystone of Germany's dye monopoly. Through the dye combines Germany directly controlled one-half of the dye production in foreign countries and was in a position to threaten the remainder. Germany, to a large extent, owned and operated the dye factories in Great Britain and France. In America coal-tar colors valued altogether at \$2,470,096 were produced in 1914 by seven establishments.<sup>2</sup> But these establishments were almost entirely dependent upon Germany for intermediates and one was owned by a leading German dye firm. It is true that since 1910 one firm had provided a small part of the domestic consumption of nitrobenzol and anilin and that several other inter-

Germany .....	\$68,300,000
Switzerland .....	6,450,000
Great Britain.....	6,000,000
France .....	5,000,000
United States .....	3,000,000
Austria .....	1,500,000
Russia .....	1,000,000
Belgium .....	500,000
Netherlands .....	200,000
Other countries .....	200,000
	\$92,150,000

<sup>2</sup> The coal-tar dye industry in the United States as reported in the census of 1914:

Number of establishments.....	7
Persons engaged in manufacture.....	528
Wage earners (average number).....	398
Value of products.....	\$3,596,795
Coal-tar colors:	
Pounds .....	6,619,729
Value .....	\$2,470,096
All other, value .....	\$1,126,699

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mediates were produced in this country in small quantities. But these instances only tended to emphasize our lack of self-sufficiency. During the fiscal year ending June 30, 1914, we imported over 10,000,000 pounds of intermediates.

As is well known, the organization of cartels was encouraged by the German Government and became a leading factor in the advance of German industry. It was particularly effective in the chemical industries. Because of the interrelation of products and the utilization of by-products, close organization effected large economies. It made the protection of patent rights easier, it made it possible to purchase raw materials at greater advantage, and it enabled the industries more effectively to meet and to suppress competition abroad. Unquestionably, a large part of the success of the German dye industry was attained through the painstaking research of German chemists and the processes which they discovered and patented by the thousand. But financial control and business organization were also large factors in its supremacy. Before the war it was controlled by two communities of interests, the one known as the Badische group, the other as the Höchst-Cassella group. The dividends of four of the large German dye concerns from 1902 to 1911 ranged, it is reported, from 196 to 300 per cent. This financial strength must be kept in mind when we are considering the competition that our industries will be called upon to face.

The dye industry is not large and its importance was not realized until the war brought our dependence upon Germany forcefully to the attention of the textile manufacturers and other consumers. Color is often the determining factor in the saleability of goods. Ink and

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lithographic industries must have it. It is necessary not only in cotton, woolen, and silk fabrics, but in printing and in the manufacture of leather goods, fancy paper, straw hats, and paints.

Very few textile materials are sold undyed. If dyes were not available for a considerable period of time, the manufacturers would be compelled to offer for sale white or grey goods. But for clothing purposes this would not meet the demand of the public, as purchasers would postpone buying as long as possible. In the meantime the textile industries and those dependent upon them would suffer.

By March, 1915, the Allied blockade had completely stopped exports from Germany and the conditions in our textile mills became serious. Economies were introduced. The world was searched for reserve supplies of coal-tar dyes. Light shades became common in many lines of goods. Designs were changed, especially in calicos and ginghams. Small figures were printed on white backgrounds. Natural dyes, such as logwood and fustic, came into more common use. Artificial or synthetic indigo, of which we used about 8,000,000 pounds a year and which was almost entirely supplied by Germany, was supplied in limited quantities and at greatly enhanced prices during the latter part of 1915 and the first part of 1916 from the reserve stocks of Oriental and other countries. China furnished 3,400,000 pounds; Japan, Hongkong, and British India, 1,370,000 pounds; Great Britain, 1,300,000 pounds; and even Salvador, 85,000 pounds. To a more limited extent resort was had once more to the more expensive and scarce natural product. American consumers thus obtained approximately 80 per cent. of their normal supply of indigo. They did not have, however, the same measure of success

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in other dyes. During the fiscal year ending June 30, 1916, for example, instead of the normal supply of alizarin, which averaged 5,500,000 pounds, we imported 1,758 pounds. Imports of dyes were far below normal, and such as were brought to this country came from Switzerland and from reserve stocks of German dyes in China.

In the meantime the American dye industry was growing. Old plants had enlarged their capacity, new ones were erected. American business energy and chemical skill by the fall of 1916 had banished the spectre of a dye famine which had haunted the consumer for more than a year. This does not mean, however, that all our needs were being supplied. The new dye industry sought the lines of least resistance. It concentrated its energy on producing a large output of the less complex dyes. Many important dyes, such as alizarin and the fast vat dyes for cotton, were neglected. Some of them were protected by German patents, and this country, being at that time still a neutral, could not issue licenses to manufacture under these patents as Great Britain had already done. There was also the difficulty of getting the necessary raw materials for making some of the more difficult dyes.

Within an incredibly short time after we were cut off from the German supply, we had invested huge sums in plants for making crudes, intermediates, and finished dyes. We were producing dyes quantitatively equal to our pre-war consumption. Our exports of dyestuffs exceeded in value our pre-war annual imports. We did not yet make a few such highly manufactured lines as the alizarins and indanthrenes, and we produced only a fraction of our requirements of indigo, but in most lines of large consumption we were able to meet all demands.

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We may justly be proud of our achievement in this field. When it is recalled that more than 900 distinct chemical products are made from some 300 intermediates, which themselves must first be chemically produced from 10 crude products distilled from coal tar, the vastness of the problem set before this youngest of our industries is apparent. The rapidity of its progress has amazed the world.

In a law of September 8, 1916, Congress has said in effect that the tariff is to be one of the means of preventing any attempts by a foreign competitor to destroy the new American dyestuffs industry. In revising the tariff law of 1913 to provide additional protection for the growing industry, the plan was carried out, with a few exceptions, of raising the duty on intermediates from 10 per cent. *ad valorem* to 15 per cent. *ad valorem* plus a special duty of 2½ cents per pound, and on finished dyes from either the free list to 30 per cent. *ad valorem* or from 30 per cent. *ad valorem* to 30 per cent. plus five cents per pound. The duty of 2½ cents per pound on intermediates and the duty of five cents per pound on dyes are referred to as "special duties," and after five years they are either to be abolished or reduced gradually over a subsequent period of five years.

Unfair competition was one of the methods employed by the German coal-tar dye industry to maintain its international supremacy. Unfair acts in this and other lines were no doubt in the minds of the members of Congress when they enacted the unfair-competition section of the law of September 8, 1916. By this law it is a criminal act systematically to import any article into the United States at a price substantially less than the actual market value abroad, plus freight, duty, and other charges, with the intention of destroying, injuring, or

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preventing the establishment of an industry in the United States or of restraining or monopolizing the trade in the imported article. More will be said about this law in a later chapter.<sup>3</sup>

In addition to this prohibition of unfair price cutting, the law makes provision against the practice known as "full-line forcing." Articles will be required to pay a double duty when imported into this country under an agreement that the purchaser shall not use, buy, or deal in, or shall be restricted in his using, purchasing, or dealing in, the articles of any other person. If, for example, the German dye industry controls by patent a color needed in this country, it cannot use the necessity of the American consumer as a means of forcing him to purchase his full line of dyes from abroad when all the colors except the one controlled by the patent can be purchased in this country.

Tariff laws and legislation against unfair trade practices will not alone protect our dye industries. The German industry attained success by years of research, by conservative financing, and by industrial coördination. In American industry too these must be important, in fact, dominant, factors.

The fall of 1916 was important for the dye industry not only because it brought the enactment of increased tariff rates, but because the emergency needs had in large measure been met. Manufacturers were able, therefore, to devote more attention to technical detail, to the improvement of quality, and to the achievement of uniformity of product. The larger factories established research laboratories and enlisted the services of expert chemists. This is a most significant step, for if the American industry is to hold its own against its

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<sup>3</sup> See Chapter VIII.



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foreign competitors, it must improve its processes, reduce its costs, and develop new types of dyes. Some progress has been made in these directions, but much yet remains to be done.

The entrance of the United States into the war affected the dye industry in a new way. Because of its close relationship to the explosives industry, it found difficulty in obtaining many essential raw materials that were demanded in large quantities for the making of explosives and airplanes. Toluol, acetic acid, wood alcohol, chlorine, caustic soda, and ammonia were commandeered by the Government. Toluol is an essential raw material for many dyes. Acetic acid is essential in the manufacture of indigo. Chlorine and ammonia are also used extensively in the making of important dyes.

Our entrance into the war naturally created an abnormal demand for the khaki colors and a corresponding decline in the demand for the great variety of colors used for civilian clothing. This influence has tended to limit the development of the dye industry in directions which are essential to its permanence.

Our entrance into the war as a belligerent, however, was not wholly unfavorable in its influence on the dye industry. The Trading-with-the-Enemy Act,<sup>4</sup> enacted on October 6, 1917, authorized the issuance of licenses to manufacture under patents owned by enemy aliens. The Federal Trade Commission, in administering this provision, issued licenses to several companies for the manufacturing of the vat dyes for cotton. In March, 1919, this plan of handling German dye patents was

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<sup>4</sup> For a detailed account of the administration of this measure see, in this series, Louis E. Van Norman, *War Time Control of Commerce*.

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superseded by the action of the Alien Property Custodian. These patents came under his control as "enemy property," and he sold them to a corporation formed under his guidance and known as the Chemical Foundation, Inc. In announcing this new departure, the Alien Property Custodian's report says:

The amendment of November 4 to the Trading-with-the-Enemy Act presented for the first time an opportunity for what appears to be the most important piece of constructive work which has been possible in my department. Until the enactment of this amendment it had not been possible to take over German patents. These patents formed an obstacle to the development of the American dyestuff industry. Evidently they had not been taken out with any intention of manufacturing in this country or from any fear of American manufacture, which the Germans apparently thought could not be successfully carried on under conditions prevailing in this country in regard to costs and the supply of technicians and skilled labor.

Upon consideration, however, it seemed that these patents offered a possible solution for the problem, hitherto unsolvable, of protecting the new American dye industry against German competition after the war. If they were not taken out in order to prevent American competition, they must have been obtained as a weapon against competing imports. If they were sufficient to stop importation of competing Swiss, French, and English dyes, they would presumably serve, in American hands, to stop importation of German dyes. This was particularly probable in the case of the products patents, since most of the coal-tar dyestuffs are definite chemicals, to which a product patent is entirely applicable.

The idea was accordingly conceived that if the German chemical patents could be placed in the hands of any American institution strong enough to protect them, a real obstacle might be opposed to German importation after the war, and at the same time the American industry might be freed from the prohibition enforced by the patents against the manufacture of the most valuable dyestuffs. Accordingly, these considerations were laid before various associations of chemical manu-

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facturers, notably the Dye Institute and the American Manufacturing Chemists' Association. The suggestion was met with enthusiastic approval, and as a result a corporation has been organized, to be known as the Chemical Foundation, Inc., in which practically every important American manufacturer will be a stockholder, the purpose of which is to acquire by purchase these German patents and to hold them, as a trustee for American industry, "for the Americanization of such institutions as may be affected thereby, for the exclusion or elimination of alien interests hostile or detrimental to the said industries and for the advancement of chemical and allied science and industry in the United States."

Export statistics show in a striking way the progress of the American dye industry. During the fiscal year 1916 the exports were valued at a little over \$5,000,000. In 1917 they had increased to over \$11,500,000, and in 1918 they were almost \$17,000,000. The significance of these figures can be realized only when it is recalled that the American dye industry can hardly be said to have existed in 1914, and that it is now not only supplying a large percentage of the American demand for dyes, but is exporting this substantial sum to other countries.<sup>5</sup> The production of coal-tar colors in the United States in 1914 amounted to 6,619,729 pounds. In 1917 the production of finished coal-tar chemicals, exclusive of explosives and synthetic phenolic resins, was 54,550,107 pounds.<sup>6</sup>

While the monopolistic position of Germany in the dye industry was achieved largely through technical skill, business organization, and unfair competitive methods, her dominant position in the potash industry was

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<sup>5</sup> The imports of all coal-tar products and natural indigo amounted in 1917 to \$11,670,786.

<sup>6</sup> See United States Tariff Commission, "Census of Dyes and Coal-Tar Chemicals, 1917."

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through natural advantage. Her deposits in the Stassfurt districts are exceptionally rich, and Alsace also has rich beds. The United States had no potash industry when the war broke out in Europe. At that time we imported annually, almost entirely from Germany, about one million tons of crude potash salts which contained approximately 250,000 tons of actual potash (potassium oxide). By 1917 there were in the United States 93 producers of potash, with a total production of 126,906 tons of crude, in which there were 32,540 tons of actual potash valued at nearly 14 million dollars. During 1918 the production of potash continued to increase as is shown in the following table:<sup>7</sup>

POTASH PRODUCED IN THE UNITED STATES IN 1918

Sources	Number of Pro- ducers	Total Product- tion (short tons)	Available Potash (K <sub>2</sub> O) (short tons)
Natural brines .....	21	147,125	39,255
Alunite .....	4	6,073	2,619
Dust from cement mills.....	9	11,739	1,429
Kelp .....	6	14,456	4,292
Molasses distilling waste.....	4	9,505	3,322
Steffens waste water.....	5	2,818	761
Wood ashes .....	26	609	365
Other sources .....	3	262	92
Total.....	78	192,587	52,135

The high price of potash has led to the use of substitutes, such as soda salts in the soap and glass industries, but there is no satisfactory substitute for potash as a fertilizer, its chief use. Certain soils, particularly in potato-, tobacco- and cotton-growing sections, must have potash for their upbuilding.

<sup>7</sup> Prepared by the United States Geological Survey.

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The most important sources of potash production in the United States are the brines from saline lakes in Nebraska, Utah, and California, kelp, and the dust from cement mills.<sup>9</sup> The permanence of the production from the first two sources is problematical. Most of the kelp plants, including the two largest, have already shut down. In 1918, 39,255 short tons of available potash were recovered from brines and 4,292 short tons from kelp. High prices during the war induced the investment of capital. But when competition with Europe is restored, only a high tariff will enable the domestic producer to compete in eastern markets, and it is doubtful whether this is warranted from the national standpoint.

The potash produced from the dust of cement mills will remain a permanent source of supply. Not only is it a profitable by-product, but it utilizes the dust which is a nuisance in the cement industry. At Riverside, California, for example, there is a cement factory the dust from which has so injured the orange groves that the manufacturers have been forced to find some means of abating the nuisance. Potash will probably continue to be a by-product of the cement mills regardless of the tariff. If all mills were to install dust-collecting machinery, this source alone would yield about one-third of our normal pre-war needs. The dust from blast furnaces may also become an important source.

The transfer of Alsace from Germany to France breaks the German monopoly in potash. The Alsatian deposits are equal in quality to those of Stassfurt and are sufficient to supply the world's needs for decades.

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<sup>9</sup> For a detailed account of the development of these sources and of the potash industry during the war see, in this series, George Otis Smith, *The Strategy of Minerals*.

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Both the rise of the American potash industry and the control of Alsace by France take from Germany the bargaining power with which her monopoly had endowed her and which she has at times threatened to use.

In the industries producing thorium nitrate and incandescent gas mantles there has occurred an equally interesting development. This was another case in which Germany in part controlled an industry by controlling the intermediate product. Monazite sand, the richest deposits of which are found in Brazil and India, is the primary raw material. Germany imported it and by a complex chemical process produced thorium nitrate therefrom. All the makers of gas mantles in the United States purchased thorium nitrate from German producers except the largest American mantle concern, which preserved its independence by maintaining a plant to produce its own supply. The American costs were higher than the German, but the added cost was justified by the unfair use which it was feared Germany might make of a complete monopoly. Nevertheless, the great part of the thorium nitrate consumed in making mantles in the United States came from Germany.

Monazite sand is found in North and South Carolina, but before the war competition with the deposits in Brazil and India made its mining unprofitable. The war revived its production to some extent. But the most significant development has been the importation from Brazil of monazite sand and the development in the United States on an extensive scale of the thorium-nitrate industry. We shall no longer need to look to Germany or to any other country for this important intermediary material.

The entrance of the United States into the war

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brought about another interesting development in this industry. Toluol, which is used extensively in making explosives, is one of the ingredients of illuminating gas, and during the war a number of plants were erected in American cities for its recovery. The removal of the toluol from the gas, however, depreciates its light-giving power when used in the ordinary open-flame gas burners, but it does not materially decrease its usefulness when the incandescent gas mantles are used. This situation has led to an increased demand for the production of mantles, and has had a stimulating influence on this industry as well as on the industry producing thorium nitrate.

Some of the new industrial developments in the United States during the war will not survive the post-war competition. National interests do not require the degree of self-sufficiency that the war has compelled in some lines. It would mean unnecessarily high prices and even hardship on consuming interests. There will be a readjustment when the international trade returns to normal which will eliminate some American producers.

Industrial isolation is not a wholesome condition. But neither is complete industrial dependence upon a foreign industry, occupying a monopolistic position, a wholesome condition. The war has demonstrated how essential it is to national interests to have within our Nation industries that produce those materials and articles necessary to military operations and to the operation of the great industries of the United States. Adam Smith says that "defence is of much more importance than opulence," and today an efficient defensive organization includes not only armies and navies,

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but also the great essential industries. We hope for the ending of war, but it would be folly for a nation to refuse to plan for its own safety, particularly until international government has approached closer to perfection. The war developments in American industry are not disposed of by saying that if they cannot compete with their foreign competitors, they must be eliminated. National welfare may require their preservation and may make it desirable even at a price. A careful survey should be made to determine the essential or "key" industries, and tariffs, subsidies, or other aids, if necessary, should be granted in order that the percentage of these products necessary for national well-being shall in the future be produced in the United States.



## CHAPTER IV

### THE CHEMICAL INDUSTRIES: II, UNDER THE WAR DEMAND

Demand for war supplies a second major influence modifying the chemical industries — Chlorine in the manufacture of poisonous gas — Effect of stimulating its production — Caustic soda and soda ash — Sulphuric acid — Sulphur resources of the United States — The war and Chile's monopoly of nitrate of soda — Nitric acid from synthetic ammonia — Smokeless powder — T. N. T. — Picric acid — Relationship between explosives and dye industry — Varnishing airplane wings — War uses of acetone — Antimony — Quicksilver — Importance of chemical industries.

The demand for chemicals and chemical products in modern warfare was a second major influence on the chemical industries of America. Its influence was not revolutionary, however, until after the United States declared war in April, 1917. By that time, as has been pointed out, many fundamental changes had been caused by the curtailment of imports from Central Europe. War orders arrested some of the new developments and started some radical changes. It is interesting to consider how different the course of the American chemical industry is today from what it probably would have been had we remained neutral.

The influence has been far-reaching, not only because chemistry has played such a vital part in modern warfare, but because the chemical industries are so inter-related that an effect on one is felt in many others. The demand for chlorine in the manufacture of poisonous gas is a case in point. The part that chlorine plays in the manufacture of poisonous gas is analogous to the

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part played by nitric acid in the manufacture of explosives. The three important poison gases are chlorine itself, phosgene, and mustard gas. Both phosgene and mustard gas are compounds of chlorine and require free chlorine in their manufacture.

The electrolysis of a solution of common salt yields caustic soda and chlorine in chemically equivalent amounts. But in normal times the market demand for the former far exceeds the demand for the latter, and because the chlorine is dangerous to life and destroys vegetation, it cannot be permitted to escape into the air. Hence, the production by this process of caustic soda, so necessary in soap making, paper manufacture, mercerizing cotton, and the purification of mineral oils, is limited by the amount of chlorine products that can be sold. As a result, there has been a tendency to over-produce chlorine in order to obtain more caustic soda. The chief peace-time use of chlorine was in making, in combination with lime, bleaching powder used extensively in textile and paper mills. The home production in 1914 was 155,190 tons, and the importation, chiefly from Great Britain, was 23,712 tons. Normally it was sold at very low prices, in the neighborhood of two cents per pound. As the production of caustic soda from salt by electrolysis was limited by the market for chlorine products, the deficit was manufactured from soda ash.

Into this complex interrelationship the war brought many modifying factors. Immense quantities of chlorine were required, and a rapid expansion in productive capacity occurred in this country and abroad. It is probable that at the end of 1918 the productive capacity in this country was four times as great as it was in 1914, and large additional plants were being erected when the armistice was signed. The production of

## CHEMICAL INDUSTRIES

caustic soda has also increased, but not to the same degree as chlorine. Caustic soda, in addition to its important peace uses, is an essential in making explosives, particularly picric acid.

Acute competition in chlorine and chlorine products is certain to arise with the disappearance of the war demand. Peace uses probably cannot be found for the increased production, and some of the new plants will have to shut down. International competition in bleaching powder is certain to present an important problem for consideration.

A word should be added about soda ash for with the exception of sulphuric acid it is commercially the most important chemical substance. It is an essential in making explosives and is also used in the manufacture of glass, soap, wood pulp and paper, and many other products. Great Britain has for many years been an important producer. Her development in this industry began when the Leblanc soda process was the method of production. Later, while retaining the old process in some factories, she developed on a large scale the new and more efficient Solvay process. In 1881 the Solvay process was introduced into the United States and became the basis of the American soda-ash industry.

Many complicated engineering problems have arisen and have been successfully solved. Recovery of by-products has reduced the cost. The process is continuous; raw materials are fed in at one end of the large, complex plant and the products are turned out in a steady stream at the other. The large towers in which the main reactions take place are often more than 100 feet high. The Solvay process uses much less fuel and labor than the Leblanc process. Labor-saving machinery has been perfected. With a low labor cost and

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a large production, this industry has no reason to fear foreign competition. It illustrates the security that comes to an industry that combines natural advantages with large-scale mechanical production.

Sulphuric and nitric acid are among the most important raw materials in industry, and they have also played a decisive part in the preparation of war materials.

Sulphuric acid is essential in many processes of metallurgy and industrial chemistry. It is used in refining petroleum and other oils, in reclaiming rubber, in making artificial fertilizers, in manufacturing anilin dyes, in making other acids, in the Leblanc process, in celluloid manufacture, in galvanizing, tinning and enamelling iron and steel. With the development under the war demand of the explosives and steel industries has come a rapid expansion of the productive capacity for sulphuric acid. In 1913 the United States produced 3,500,000 long tons of acid<sup>1</sup>; by 1917 it was producing twice this amount. The close of the war finds the country with a surplus which may be absorbed by the dye, steel, sulphate of ammonia, and fertilizer industries.

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<sup>1</sup> The following table from an article by Frederick A. Clawson which appeared in *Chemical and Metallurgical Engineering* for September 24, 1918, gives the production of sulphuric acid in 1913 in long tons:

United States .....	3,500,000
Germany .....	1,650,000
Great Britain .....	1,150,000
Italy .....	640,000
France .....	550,000
Belgium .....	350,000
Russia .....	260,000
Sweden .....	130,000
Japan .....	75,000
Spain .....	16,000

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One of the most significant changes wrought by the war in the sulphuric-acid industry relates to its chief raw material. Before the war pyrites (sulphide of iron) was the chief material in this industry,<sup>2</sup> extensively imported from Spain. As shipping space became increasingly scarce, the industry abandoned Spanish pyrites and began to use domestic sulphur. The American sulphur supply is the finest in the world. The chief production is at the Union Sulphur Company's plant, which is located in Louisiana. Wells are sunk in the rock and then filled with hot water which melts the sulphur. The water is heated above the melting point of sulphur (114 degrees C.) and is prevented from boiling by great pressure. Thus the melted sulphur is forced out. It is sufficiently pure in this state for almost every purpose. Sulphur was produced at these wells before the war at a cost not exceeding six dollars per ton. It was uniformly sold at \$22.50 per ton f. o. b. New York. The low cost of production in

<sup>2</sup> The following are the statistics on pyrites for 1913 (*Chemical and Metallurgical Engineering*, September 24, 1918):

Country	Production, tons	Net Import, tons	Net Export, tons	Consumption, tons
Spain and Portugal .....	1,283,904	.....	1,200,000	84,000
Norway .....	441,291	.....	460,912	Very small
United States .....	341,338	848,674	.....	1,190,012
France .....	306,267	186,348	.....	492,615
Italy .....	287,777	.....	.....	.....
Germany (1912) .....	258,517	1,070,794	.....	1,329,311
Canada .....	141,577	.....	49,000	92,000
Russia (1912) .....	123,990	.....	.....	.....
Japan .....	114,387	.....	.....	.....
Hungary .....	104,050	.....	.....	.....
Great Britain .....	11,427	794,740	.....	806,167

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the United States makes it impossible for the Sicilian sulphur, the chief foreign supply, to compete.<sup>3</sup>

Chile has a natural monopoly of nitrate of soda, the chief raw material for the manufacture of nitric acid. This mineral occurs in large beds on the barren, desert pampas of the northern provinces of Chile, and is exported from Iquique and Antofagasta. Before the war about 500,000 tons were imported annually into the United States. About 400,000 tons were used for purposes other than the making of acid, chiefly as fertilizer. From the remainder there was produced in 1914 78,589 tons of acid of average strength, and 112,124 tons of mixed acid. This was equal to 89,000 tons of 100 per cent. acid. Of this amount, 50,000 tons was for explosives and 40,000 tons for other uses.

At the end of 1918 the annual importation of nitrate of soda amounted to 1,600,000 tons, 1,000,000 tons of which was used in making acid. The current production of acid from nitrate of soda amounted to 650,000 tons of 100 per cent. acid. Of this five-sixths was for military purposes.<sup>4</sup>

The most significant fact about the nitric-acid industry is the development of the process of making acid from synthetic ammonia, derived from the fixation of atmospheric nitrogen. The Government expended for this purpose during the war nearly \$100,000,000 and plants have been erected and are operated by the Government. It is said that American chemists have made substantial improvements over the Haber and Ostwald processes which have been developed in Germany as a

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<sup>3</sup> For a detailed account of the development of the sulphur and sulphuric acid industry see, in this series, George Otis Smith, *The Strategy of Minerals*.

<sup>4</sup> E. J. Pranke, *Journal of Industrial and Engineering Chemistry*, vol. x (1918), p. 830.

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result of twenty years of investigation and work.<sup>5</sup> Possibly after the war nitric acid from synthetic ammonia may be cheaper than that made from nitrates.<sup>6</sup>

Chile has for many years raised a large part of her revenue from an export tax levied on nitrate of soda. Because of Chile's monopolistic position the incidence of this tax fell on the foreign consumer. But the improvements in processes for making nitric acid have weakened Chile's position, and she may be forced to reduce or even abandon her export tax.

Sulphuric and nitric acids together with cotton linters are the most important ingredients in smokeless powder. The du Pont factories have played an important part in the war. In fact, it is not unreasonable to claim for them that they saved the cause of the Allies in 1915. When the war broke out, they had an annual capacity of 12,000,000 pounds of smokeless powder. When the war came to an end, they were producing at the rate of between four and five hundred million pounds per annum. The price of this powder has been lowered from \$1.00 per pound in October, 1914, to 43½ cents per pound in September, 1918. The end of the war finds immense plants at Carney's Point, New Jersey, Nashville, Tennessee, Hopewell, Virginia, and Charleston, West Virginia. They bring to mind the larger question of the limitation of armaments and the control of munitions production by the Government.

Smokeless powder is used as a propellant, and should not be confused with high explosives, which are used as

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<sup>5</sup> For a more detailed account of the sodium-nitrate situation and the production of nitric acid from atmospheric nitrogen see George Otis Smith, *op. cit.*

<sup>6</sup> Grinnell Jones, *Journal of Industrial and Engineering Chemistry*, vol. x (1918), p. 783.

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shell fillers. The most satisfactory shell filler, popularly known as T. N. T. (trinitrotoluol), is made from toluol. Toluol along with benzol is stripped as a by-product from the coal gas that rises from coke ovens. Stripping plants have been installed at every by-product coke-oven plant and in many plants supplying illuminating gas for cities.<sup>7</sup> Small amounts of toluol have also been obtained from other sources. The production of toluol has increased from 1,500,000 gallons in 1914 to 10,219,830 gallons in 1917. The production of benzol has increased in the same period from 4,500,000 gallons to 40,192,930 gallons.<sup>8</sup> Toluol has important peace uses, and now that it has ceased to be in great demand for military purposes, its large production will seek other markets. It is used in making benzoic acid and saccharine. Impure grades of it, as well as of benzol, may be used as substitutes for turpentine in making paints, varnishes, paint removers and solvents, and for other purposes. If the increased production lowers the price sufficiently, it may be mixed with gasoline and used as motor fuel.

During the war the shortage of toluol created a demand for picric acid, which is also used as a shell filler. This demand in turn created a demand for phenol, which is produced not only from coal tar, but also is made synthetically from benzol. A small synthetic-phenol industry had been maintained in Germany for military purposes, but it is a new industry in the United States. In 1917 there were 15 companies operating with an output of 64,146,499 pounds, valued at \$23,715,805. Phenol has numerous peace uses, which include the manufacture

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<sup>7</sup> For a detailed account of the development of by-product coking during the war see George Otis Smith, *op. cit.*

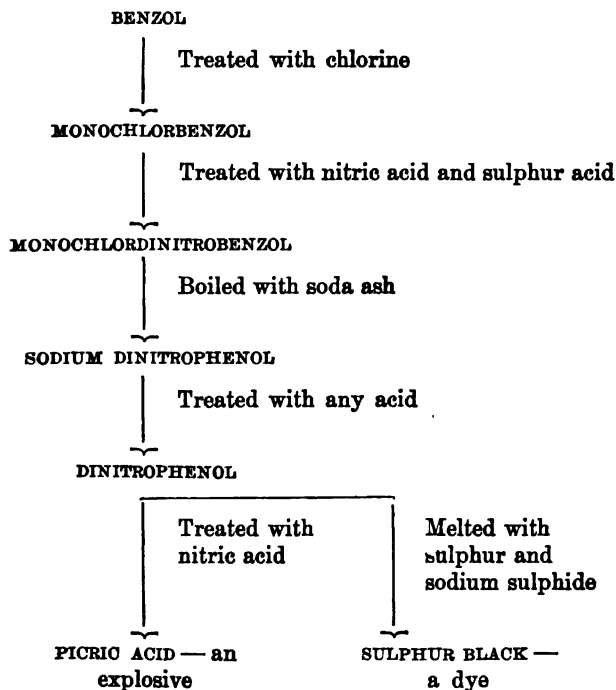
<sup>8</sup> United States Tariff Commission, "Census of Dyes and Coal-Tar Chemicals, 1917."



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of synthetic medicinals, dyes, perfumes, flavors, photographic articles, resins, and tanning materials.

The relation between picric acid and the dye known as sulphur black illustrates the close relationship that exists at many points between the dye industry and the high-explosives industry. Both picric acid and sulphur black are derived from benzol. The first four chemical steps in making these products are identical, yielding dinitrophenol which may then be converted into picric acid by treatment with nitric acid or into sulphur black by treatment with sulphur and sodium sulphide. The steps are as follows:



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This helps to make clear what is meant when it is said that the development of the dye industry is a measure of military preparedness. Some of its machinery may be turned immediately to the production of explosives, and its technical staff as well as its general equipment can be used, with comparatively little change, in the production of high explosives. Unquestionably, this was an important motive in inducing the German Government to interest itself in the strong dye industry of Germany.

Airplane production has not been without its effect on the chemical industry. In the early days of the war, airplane wings were varnished with cellulose nitrate, which ignites with ease and burns with almost explosive speed, a property which has brought sudden and fiery death to many aviators. America, however, initiated the practice of varnishing with a non-inflammable "dope" known as cellulose acetate.\* This has led to a rapid increase in the output of acetic acid and acetone.

Acetone has three important uses in warfare. It was one of the articles, therefore, of which there was an acute shortage. It is used in the manufacture of "cordite," the propellant of British naval shells, as a solvent for airplane wing varnishes, and in the manufacture of some substances used in gas warfare. Before the war the only source of acetone was from the distillation of wood, but the supplies were entirely inadequate to meet the war demands. The wood-distillation industry itself has been stimulated, but new sources of supply have been needed. At least four new technical processes for the manufacture of acetone have been developed and put

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\* For a description of the development of this material see, in this series, Arthur Sweetser, *The American Air Service*.

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into commercial operation since the outbreak of the European War.

Probably the largest output of acetone has been secured from molasses. The molasses is fermented to alcohol, and this in turn by a second fermentation process is converted into acetic acid. The acetic acid is then converted into lime salt, and this in turn into acetone by heating to a dull red heat. Another process has been developed for its production directly by fermentation from starchy material. The process yields a by-product of butyl alcohol in large amounts, and butyl alcohol is thus made commercially available for the first time. A third process makes acetone from calcium carbide at large plants which have been erected for the purpose at Shawinigan Falls, Canada.

The Hercules Powder Company was offered a contract for cordite by the British Government at a very profitable figure on the condition that the acetone necessary for its manufacture should be obtained from an entirely new source. By these terms the Hercules Company could not become a competitive bidder with the British Government for the existing supplies of acetone. The Hercules Powder Company developed a process for making acetone from the giant kelp, a submarine tree which grows off the California coast.

It is not yet clear whether any of these processes will continue in operation when the war demand for acetone disappears. Their success will depend partly, at any rate, on the market for and the tariffs on their by-products. Some of them may be a permanent factor in the acetic-acid industry, even if they cannot make acetone in competition with the wood-distillation process. The factory using kelp has already been closed.

The histories of antimony and mercury are interesting

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in their relation to the war. During the four-year period 1913-16 the price of antimony fluctuated from 7.5 to 30.2 cents per pound, and that of mercury from \$39.54 to \$125.49 per flask of 75 pounds. Antimony is used in warfare chiefly for hardening lead for shrapnel bullets, and also, in the form of the sulphide, as an ingredient of some primers and as an addition to the explosive content of shells for making a smoke which will assist gunners in finding their range. Mercury's most important use is in the form of fulminate of mercury for detonators of big shells and cartridges. The war demands and shipping restrictions have brought about radical changes in the antimony and mercury industries.

Over half the world's antimony is mined in China. Other producers are France, the United States, Algeria, and Mexico. For many years before the war the available supplies of antimony ore far exceeded the world demand, and there was little to encourage development of antimony deposits other than those from which high-grade ores could be obtained. After the outbreak of the war there was a curtailment of the metal; Chinese and South American antimony became difficult to move on account of shipping shortage, and Mexican supplies were unstable. In these circumstances considerable activity resulted, and many deposits in the United States which had remained idle for a long period were again put in operation.

During 1904 and 1905 the United States led the world in the production of mercury, but since 1906 Spain has been the leading producer, and has accounted for about one-third of the total. Italy, Austria, and the United States have made up the major part of the remaining two-thirds, in proportions varying only slightly in the order named. On the outbreak of the war Austrian

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supplies were at once cut off, and Spanish supplies, controlled mainly in London, were held for Allied use. Spanish and Italian production has been largely increased since 1914, and the industry in the United States has also undergone wide expansion. The rich ores in the United States are practically exhausted and few mines have large reserves of even low-grade ore. Treatment of material carrying less than 0.25 per cent. mercury is not unusual in the United States, whereas the Spanish mines at Alamaden have been treating in recent years ore averaging 11 per cent. mercury. The decreasing grade of American ore has resulted in a steady fall in the production per furnace which has not been met by the construction of additional equipment.

Many other important developments in the chemical industries might be mentioned. Incendiary bombs, smoke screens at sea, star shells, signal rockets, and other war demands have stimulated the production of important chemicals. Sufficient has been said, however, to indicate the profound effect that the war has had, both directly and indirectly, upon the chemical industries. Many plants have been erected with the express understanding that they were to be scrapped when peace came. Ample allowance has been made for amortization, but the problem is not so simple as that. The building of plants, the training of skilled labor, the complex inter-relationship of industries, and especially the problems of national defense present a task of readjustment which requires all the constructive genius of our business men and statesmen. Even the hasty review here given of the effect of the war on the chemical industries should make clear their vital importance in the industrial and military activities of the American people.

## CHAPTER V

### AMERICAN INDUSTRIAL EXPANSION IN THE WAKE OF WAR

Effect of the war on established industries of the United States — Period from August, 1914, to April, 1917 — Period from our entrance into the war to the signing of the armistice — American textile industries — Increase in financial strength — Growth of export trade — War orders — American steel industry — Export expansion — Increase in mill capacity — Unprecedented growth of American shipbuilding — Its commercial and political significance.

The war conditions brought about some striking developments in the established manufacturing industries of the United States. In considering these developments it is necessary to distinguish between two periods, the first covering the time from the outbreak of the war in Europe to the declaration of war by the United States, and the second beginning with the entrance of this country into the war and lasting until the signing of the armistice. As very important among the American manufacturing industries, special attention will here be given to the textile and the iron and steel industries. The shipbuilding industry, which under stress of war conditions attained unprecedented prominence, will also receive consideration.

In the first period the disturbed world conditions brought to American industry in general almost unrestricted stimulation and prosperity. American producers were called upon to supply at least three new demands. In the first place, European industries which had shared the American market with American manufacturers were less and less able to keep up their export trade. Either they were, as in the case of Belgium,

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Germany, and Austria, debarred entirely from foreign markets, or they were, as in the case of France and Great Britain, primarily occupied with supplying the military needs of the Allies. As European competitors withdrew from the American market, the American industries endeavored to supply the full demand. In the second place, there was an analogous development in other neutral markets. America, like Japan in the Far East,<sup>1</sup> became an important factor in supplying markets whose needs before the war had been very largely met by European countries. The textile industries, for example, which had not been considered formidable competitors of England and Germany in most neutral markets, developed a considerable and promising export trade. In the third place, American industries, and especially the explosives, arms, and steel industries, received numerous war orders from the belligerents.

During the second period, beginning with the declaration of war by the United States, war orders of the United States Government at once became the overshadowing influence. The War Industries Board, the War Trade Board, and the Fuel Administration were created and set about deliberately to mobilize American industry for the winning of the war. Restrictions were established on non-essential production and use of fuel; import and transportation priorities were granted to war industries.<sup>2</sup> Speaking of the extent to which war demands occupied the capacity of many of our important industries, Dr. F. W. Taussig says:<sup>3</sup>

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<sup>1</sup> See Chapter VI.

<sup>2</sup> For a detailed account of the Government's regulation of distribution see, in this series, Louis E. Van Norman, *War Time Control of Commerce*.

<sup>3</sup> "Price Fixing as Seen by a Price Fixer," *Quarterly Journal of Economics*, February, 1919.

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Almost the entire supply of many important articles was wanted for government use—partly by the United States Government itself, partly by contractors working for the Government, partly by the Allies. The extent of the indirect demand (from contractors) was not always known; but it played a great part, and was of essentially the same character as that of the Government itself. When things were at their height, the total non-private demand for iron and steel absorbed 85 per cent to 90 per cent of the tonnage. This was the maximum; but at no time between the autumn of 1917 and the autumn of 1918 was the non-private demand for less than 60 per cent. For copper the proportions of maximum and minimum non-private demand for public use were no less. Nine-tenths of the nickel was taken, during the war period as a whole, for Government and Allies' use and at least as much of the aluminum. For other commodities the requirements, though not such as to dominate the market completely were yet so great as to threaten to demoralize it. During the war period half of the zinc and half of the quicksilver were taken for government use. Of the coarser cotton fabrics, as much as 60 per cent was at one time taken by the Government; of the country's entire output of cotton manufactures, as much as 30 per cent. For southern pine lumber the Government's demand, through the entire period of war, was for more than a fifth of the cut, and during the summer of 1918, when the peak was reached, for more than a third. For spruce and fir (Washington and Oregon) the proportion of the whole was less; but certain sizes suitable for ship timbers, and certain kinds suitable for aircraft, were completely taken over, and the "side-cut" from these became an almost dominant factor in the commercial market. Of sulphuric acid nearly 40 per cent was taken when things were at their height; and of nitric acid as much as 65 per cent.

In this period an unprecedented change was brought about in the American shipbuilding industry. The work of transporting men and supplies to Europe, the withdrawal of Germany's large mercantile marine from international trade, and the destruction of vessels by submarines called for additional ships and led to the



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inauguration of a huge programme of construction. Of all the industrial changes caused by the war, the growth of the shipbuilding industry will perhaps be the most significant, because a strong American mercantile marine seems likely to become a determining factor in both the commercial and the general international policy of this country.

The American textile, steel, and shipbuilding industries played a part in the war no less important than that played by the chemical industries. Vast quantities of clothing, equipment, shells, ordnance, arms, armor plate, and ships were necessary. The measure of success attained in manufacturing these in quantities adequate to meet the needs first of the Allies and then of the rapidly expanding American Army manifested the adaptability and the potential capacity of American industry. Many of the war-time developments will prove of permanent value. New commodities were produced which can be adapted to peace needs. Financial organization has been improved and made more secure. New uses for raw materials have been devised, new raw materials and new sources of raw materials have been developed. Foreign trade has been extended both in magnitude and in range of markets.

The outbreak of the war in 1914 found in the United States all the leading branches of the cotton, woolen, and silk industries in a strong position. They had been built up under a system of high protection by the initiative and business skill of American manufacturers. Factories were in operation which were marvels of equipment and organization. Machinery had been perfected. Combing and spinning machinery, Jacquard and automatic looms, printing machines — these and many others

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were not excelled anywhere. A skilled body of workers had been trained.

These industries were affected by the war from the first. The shortage of dyestuffs, already considered,<sup>4</sup> was for a time serious. Substitutes were adopted, patterns changed, and all the corners of the earth searched for reserve supplies. Prices of dyes mounted unprecedently. But the rise of the American dye industry before long removed almost all these difficulties. Shortly after the outbreak of the war in Europe a great increase in the export demand for goods developed as a result of the war restrictions on European industry, and war prosperity led to a like increase in the home demand. The textile industries experienced the greatest prosperity in their history. Many mills, formerly in debt for equipment or for working capital, have become independent of the commission houses, which formerly dominated their output and their selling policy. This has been especially true of southern cotton mills, and their independence will increase their competitive strength. In the future these mills will not only save heavy interest and other special charges, but will be in a better position to engage in export trade.

The increase in their export trade will very likely be retained, in part at least, by the American textile mills. American manufacturers have become familiar with export procedure, and foreign buyers have learned the merits of American textiles. The United States has become the second largest exporter of manufactures of cotton. The exports of cotton goods increased from the pre-war record of \$53,740,000 in the fiscal year 1913 to \$112,050,000 in 1916, and increased further in 1918 to \$169,398,000. Although there was a rise in prices which

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<sup>4</sup> Chapter III.

## AMERICAN INDUSTRIAL EXPANSION

exaggerated the actual growth of this trade, there was, nevertheless, a very substantial increase in quantity. The increase in the export of the more important cloths is shown by the figures in the following table:

**EXPORTS OF AMERICAN COTTON FABRICS, 1913-18**  
(*In thousands of yards*)

Cotton Fabrics	1913	1916	1917	1918
	000	omitted		
Unbleached .....	213,190	176,627	157,197	98,858
Bleached .....	39,495	76,500	101,566	144,402
Colored .....	192,044	297,445	431,431	441,667
<b>Total .....</b>	<b>444,729</b>	<b>550,572</b>	<b>690,194</b>	<b>684,927</b>

Our exports of manufactures of wool increased from the pre-war record of \$4,790,000 in the fiscal year 1914 to \$53,980,000 in 1916, but after the United States entered the war, the productive capacity of American mills was largely occupied with war orders, and the quantity available for export declined. In 1917-18 the exports decreased to \$17,750,000. The exports of domestic silk manufactures rose from \$2,390,000 in 1913 to \$5,204,000 in 1916 and then to \$12,140,000 in 1918. Although the increased exports of manufactures of wool and silk may not be maintained when the pre-war sources of supply are again available, the American cotton-goods industry may be expected to hold and even to better the position in the world's export trade which it has gained during the war.

The American exports of unbleached cotton cloth to Oriental markets have declined, as the table overleaf shows. During the war the Japanese took over that share of the Indian and Chinese markets that we had supplied. But in unbleached cottons we increased our

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### EXPORTS OF UNBLEACHED COTTON CLOTH, 1913-18 (In thousands of yards)

Country*	1913	1916	1917	1918
China .....	78,161	9,231	2,013	4,100
Aden .....	24,680	20,615	16,856	1,710
British Africa .....	15,269	6,225	11,354	7,429
British India .....	12,606	12,439	3,399	791
Central America ...	11,849	14,996	26,187	12,165
Canada .....	9,368	8,163	8,683	9,968
Chile .....	8,346	9,668	14,293	10,770
Colombia .....	7,282	5,083	5,167	2,999
Philippine Islands..	6,746	9,823	8,462	7,325
Other West Indies..	4,873	6,029	6,770	6,074
Australia .....	4,675	4,131	3,972	1,570
Cuba .....	2,782	6,125	6,406	4,711
Venezuela .....	1,854	2,431	3,521	728
Argentina .....	1,378	3,900	4,463	3,950
United Kingdom...	1,257	20,642	4,757	497
Haiti .....	1,031	4,812	4,065	2,554
Mexico .....	443	7,126	10,924	10,541
All other.....	20,930	25,188	15,905	10,976
Total .....	213,190	176,627	157,197	98,858

\* Arranged according to relative quantities in 1913.

exports to Latin America. These exports to Mexico, for example, amounted in 1913 to less than 500,000 yards. In 1917 they amounted to almost 11,000,000 yards. In bleached cotton cloth the exports to Canada and Latin America, as shown by the first table opposite, substantially increased. These exports to Mexico, for example, rose from a little over 550,000 yards in 1913 to almost 21,000,000 yards in 1918.

There has been also, as the second table opposite shows, a marked increase in exports from the United States of colored cotton cloth. The exports to Central America, for example, which in 1913 were a little over 18,500,000 yards, had increased in 1917 to almost 34,000,000 yards. Other similar increases are indicated in the table. In

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### EXPORTS OF BLEACHED COTTON CLOTH, 1913-18 (In thousands of yards)

Country	1913	1916	1917	1918
Philippine Islands..	16,995	18,154	14,100	36,188
Canada .....	4,803	5,481	8,293	11,854
Cuba .....	3,032	9,513	13,604	15,984
Central America....	2,397	4,204	7,294	5,370
Chile .....	1,871	878	4,108	10,011
Dominican Republic.	1,218	1,945	3,006	2,687
Bolivia .....	1,135	1,201	3,118	1,088
Haiti .....	1,105	2,001	3,619	3,786
British India .....	827	409	1,399	761
Colombia .....	796	6,750	5,956	2,420
Mexico .....	553	8,523	13,178	21,083
Argentina .....	35	2,685	5,904	6,890
All other.....	4,728	14,756	17,987	26,280
<b>Total .....</b>	<b>39,495</b>	<b>76,500</b>	<b>101,566</b>	<b>144,402</b>

### EXPORTS OF COLORED COTTON CLOTH, 1913-18 (In thousands of yards)

Country	1913	1916	1917	1918
Philippine Islands..	69,519	45,107	63,999	76,060
Central America....	18,698	13,133	33,928	19,702
Colombia .....	18,310	21,729	21,161	8,036
Haiti .....	18,036	20,731	17,112	11,041
Cuba .....	16,260	44,999	38,186	57,397
Canada .....	12,950	41,833	59,403	36,787
Dominican Republic.	10,026	11,237	16,065	13,251
Other West Indies..	8,346	13,691	18,207	14,425
Australia .....	2,621	7,746	9,562	7,366
Ecuador .....	2,380	3,273	6,398	2,331
China .....	2,275	1,198	1,385	1,810
Venezuela .....	1,807	8,304	13,814	3,376
Mexico .....	1,652	24,800	50,285	76,286
All other.....	9,164	39,664	81,926	113,798
<b>Total .....</b>	<b>192,044</b>	<b>297,445</b>	<b>431,431</b>	<b>441,666</b>

1918 the marked falling off of exports of colored cotton cloth, as in the case of both bleached and unbleached

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fabrics, was due to the occupation of the American mills with American war orders.

With the entrance of the United States into the war, new influences began to appear in American textile industries. There were restrictions upon exports and tremendous demands for war supplies. Added to the increased demand from the prosperous home markets and the almost insatiable demands from foreign countries, whose usual sources of supply had been closed, was the enormous demand from the American Government for war requirements. A large proportion of textile machinery was devoted to Government business and civilian needs were given second place. The silk mills, faced with a possible restriction of their use of fuel, as well as of tin, logwood and other materials, anxiously sought to show that silk was not a luxury but an essential in clothing the nation.

The war has demonstrated the value to this country of being the main source of supply of raw cotton. About three-fifths of the world's production of cotton is raised in the United States. We normally export about two-thirds of our supply, chiefly to England, Germany, and France. Japan gets some of her cotton from this country and some from China, although the greater part of her supply comes from India.

The war led to an expansion in almost every line of cotton manufacture, including particularly such war materials as duck, gun cotton, absorbent cotton, and bandage cloth. The substitution of fibre webbing for leather straps is one of the war changes that probably will be permanent. The war demand fell chiefly on heavy fabrics, such as duck and coarse sheetings. The lack of linen for airplane wings was met by the development of special cotton fabrics made of fine yarns.

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The American woolen industry much more than the cotton industry depends upon foreign countries for its supply of raw material. The British Dominions—Australia, New Zealand, and South Africa—furnished in normal times a considerable proportion of our needs, although during the war this supply was almost entirely taken over and controlled by the British Government. During the war our manufacturers relied largely on Argentina to supplement the supply of domestic wools.

One of the effects of our experience in the war very likely to be permanent is the increased use of cotton and shoddy mixed with new wool for textile manufactures. At the time of the entrance of the United States into the war the War Department would permit no adulteration of clothing or other equipment made for the Army. But it was soon recognized under pressure of the need to conserve the limited supply of wool that wool shoddy (now more tactfully called “reworked wool”) and even cotton might improve overcoats and blankets. Reworked wool, as the trade has known for years, may be of better quality than low grades of raw wool.

The resourcefulness of American textile mills is well illustrated by the rapidity with which carpet mills turned to the production of duck so greatly needed by the Army. America is the leading manufacturer of machine-made carpets, and this industry proved a national asset, demonstrating its quick adaptability in turning out large quantities of an essential war material.

Another important effect of the war has been the establishment of the United States as the silk-manufacturing center of the world. All of the raw silk consumed in this country is imported. It is produced principally in low-wage countries, chiefly in Japan and

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China, with lesser amounts in Italy, Asiatic Turkey, and France. In 1913, 66 per cent. of our silk came from Japan, 22 per cent. from China, and 10 per cent. from Italy.

The silk industry enjoyed great prosperity during the war. The manufacture of silk hosiery especially increased with great rapidity. The part that the industry played in supplying war needs was chiefly in the production of silk powder bags for big military guns. This war demand has left its permanent effect on the industry. As a direct result of the Government demand for powder bags, the utilization of silk waste has developed in a most striking way. It should be said parenthetically that the silk industry consists of two main branches, the thrown-silk industry and the spun-silk industry. In the former the silk filament is simply unwound from the cocoon and "thrown" into yarn; in the latter silk waste from the throwing operation or from pierced or otherwise defective cocoons is worked over and spun in much the same manner as cotton yarns. It is this branch of the industry that has been most stimulated by the war. One of the conspicuous developments in the spun-silk branch of the industry has been the increased manufacture in this country of the necessary equipment and machinery, with the result that the American silk-spinning mills need no longer rely on Europe for any of their essential equipment.

The steel industry was in a depressed condition at the beginning of the war. The annual production of steel, in terms of ingots and castings, had fallen from 31 million tons in 1912 and 1913 to 23,500,000 tons in 1914.<sup>5</sup> The war, of course, brought a very urgent demand for

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<sup>5</sup> *The Mineral Industry, 1916*, p. 404.



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shells and other munitions. We know now that early in the war Germany was at the point of winning because of the shortage of munitions experienced by the Allies. The war had not progressed far, however, when Charles M. Schwab arrived in London and made the first of the great contracts which were to save the situation for the Allies and at the same time tremendously to stimulate American steel production.<sup>6</sup>

In addition to the war munitions that were sent abroad, there was a marked increase in the exports of steel in general. Pig iron, billets and blooms, iron and steel bars, rails, sheets and plates, structural steel, wire, wire rods, nails and spikes, and pipes and pipe fittings were all exported in large quantities, and altogether showed an increase from 1,421,800 long tons in 1914 to 5,587,920 long tons in 1916.<sup>7</sup> The export of machinery, cutlery and other forms of steel manufacture also showed a great increase after the outbreak of war. America, in addition to exporting war material and other steel to Europe, was supplying steel for ordinary uses in South America and Oriental markets formerly controlled for the most part by Germany, Great Britain, and France. It is not surprising that the total exports of iron and steel and their manufactures, as a result of these unprecedented demands from abroad, increased from \$304,606,000 in 1913 to \$621,238,000 in 1916, and then to \$1,125,890,000 in 1918. Some of the items of this trade are given in the table overleaf.

The large Government orders for munitions and for steel for ships which resulted from the declaration of war by the United States imposed an added burden on the already hard-pressed capacity of the industry.

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<sup>6</sup> *Forum*, January, 1917, p. 113.

<sup>7</sup> *The Mineral Industry*, 1916, p. 408.

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### EXPORTS OF CERTAIN IRON AND STEEL PRODUCTS, 1913-18 (In thousands of dollars)

	1913	1916	1918
Bars or rods of steel.....	\$10,565	\$37,693	\$85,652
Billets, ingots, blooms.....	5,335	42,410	164,883
Firearms .....	3,972	18,065	49,159
Forgings .....	.....	.....	37,476
Machinery .....	130,554	182,673	288,273
Steel rails.....	13,429	17,632	22,774
Sheets and plates.....	23,982	25,020	118,974
Shells and projectiles (empty) ..	.....	.....	27,603
Structural iron and steel.....	16,055	12,005	23,836
Tools .....	12,660	14,774	22,829

To meet these increasing war and export demands, the plants were forced not only to work to capacity but to expand their facilities enormously. New plants were built and extensions were made. Twenty-nine open-hearth furnaces with an annual capacity of 1,405,000 tons were finished in 1915, and 103 additional ones with an annual capacity of 4,205,000 tons in 1916.<sup>8</sup> The increase continued unabated in 1917. The annual capacity of all the steel plants of the country was about 48,500,000 tons on January 1, 1918, and they were running at 98 per cent. of capacity.<sup>9</sup> When this production is compared with that of 23,000,000 tons in 1914, or 31,000,000 tons in the years 1912 and 1913, the extent of the war-time expansion is realized. In 1916 the United States Steel Corporation, which turns out about half the American product, was spending \$250,000,000 on improvements, the Bethlehem Steel Corporation, \$160,000,000, and the Midvale Steel and Ordnance Company, \$75,000,000. At a number of places old plants, long in disuse, were restored and put to work.<sup>10</sup> Electric-steel

<sup>8</sup> *Ibid.*, p. 407.

<sup>9</sup> *Iron Trade Review*, January 3, 1918, p. 46.

<sup>10</sup> *Forum*, January, 1917.

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production grew from 24,000 tons in 1914 to 169,000 tons in 1916. The United States supplanted Germany as the leading producer in this field.<sup>11</sup>

The increased capacity of our steel mills will be occupied for some years at least in supplying the demands for reconstruction materials. Building everywhere was stopped or retarded by the war. Factories and other buildings were permitted in most cases to depreciate. The wear and tear on the railroads of all countries has not been replaced. In Europe the deterioration has been greater than in this country. Large quantities of steel and machinery will be required in rebuilding the areas devastated by Germany, though the nature of the demand will depend very largely on the means that we devise to finance the work of rehabilitation. The export demand from Latin America and the Orient will probably be greatly increased.

One of the very significant war-time developments is that of the American shipbuilding industry. At the beginning of the war period only an insignificant part of the trade of the world was carried in American bottoms. In 1914 but little over a million gross tons of American shipping was engaged in foreign trade, and this tonnage carried only approximately 10 per cent. of the exports and imports of the country. The coast-wise tonnage was altogether American, however. Under conditions that existed prior to the war, the American mercantile marine engaged in the foreign trade was at a disadvantage in competing with the shipping of nations like Great Britain, Germany, Norway, and

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<sup>11</sup> For a more detailed account of the course of the iron and steel industry during the war see, in this series, George Otis Smith, *The Strategy of Minerals*.

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Japan. Shipbuilding in America was less standardized than abroad, and certain factors made the cost of operation of American vessels higher than that of foreign vessels.

During the war, ships were so scarce and in such demand that competitive conditions were altered. The problem was to get carrying space, and freight rates were high. This condition was in itself a stimulus to American shipbuilding, but the great impetus came when America entered the war and undertook to defeat the programme of the German submarine. A new era for American shipping began.

Shortly after the war began, the President was empowered to requisition, construct, and operate vessels, without limitation. He delegated this power to the United States Shipping Board and its Emergency Fleet Corporation, which were already in existence. Authority to construct vessels was delegated to the Emergency Fleet Corporation, and the power to requisition and operate was vested in the Shipping Board.

Under this authority the German and Austrian interned ships were seized, Dutch vessels were requisitioned, privately owned American vessels were commandeered, neutral vessels of other flags were chartered, the use of Japanese vessels was obtained in exchange for exports of American ship plates, and an extensive programme of construction was instituted. As a result of this activity the United States Government on September 1, 1918, controlled a tonnage, steam and sail vessels of 500 gross tons and over, of 10,334,196 deadweight tons.

The capacity of the shipbuilding yards has increased enormously. At the beginning of the war there were in the country 37 yards for the building of steel ships

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and 142 ways, 70 per cent. of which were used for the construction of naval vessels. By November, 1918, the number of yards had about trebled, and there were 398 ways. During the same time the number of yards for building wooden ships was quadrupled and the number of ways grew from 73 to 418. Four immense fabricating yards have been created for the construction of ships, the standardized parts of which are made elsewhere. Five Government-owned yards are producing concrete vessels.

The year 1917 was one of preparation, but the Emergency Fleet Corporation was turning out vessels rapidly by the end of 1918. In 1916, the best shipbuilding year before our entrance into the war, less than 300,000 deadweight tons of shipping, steel and wood, was produced. During the year ending August 31, 1918, 1,800,000 deadweight tons of steel ships was completed, and 9,113,880 deadweight tons was contracted for. On November 1, 1918, 493 steel vessels of 3,374,616 deadweight tons were actually under construction. During the last five months of 1918 one wooden ship a day was being turned out.<sup>12</sup>

Perhaps no war-time industrial change presents so many problems as does that of our mercantile marine. What will be the effect of peace upon the building programme? Apparently there is no thought that all the new yards will be kept going at the present rate. They are emergency creations and many of them have been constructed with the idea of but temporary use. It is probable, however, that a considerable part of the shipbuilding industry will be maintained.

Several factors enter into this consideration. One is

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<sup>12</sup> The foregoing figures are taken from the second Annual Report of the United States Shipping Board, December 1, 1918.

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the relative cost of building ships here and abroad. The large-scale production here, especially the building of the fabricated ship, has prepared the way for a lowering of the construction costs, when normal conditions return, to a point that will probably permit competition with foreign-built vessels. But it is a question whether there will be a demand for such large-scale production after the war.

This introduces the problem of operating costs of shipping. The demand for tonnage may be so great for a few years that no problem will arise, but eventually ordinary competitive conditions will be restored. It is not now apparent that that time will find American shipping more favorably situated than before the war, when American shipping was largely driven from the high seas. But political as well as economic factors must be reckoned with. There is a possibility that the restrictive legislation that has hampered American shipping may be modified. On the other hand, something like the American requirements may be accepted as an international regulation, although this is extremely unlikely. Such a step would tend to equalize operating costs. A more likely solution of the problem is the granting of a Government subsidy paid by general taxation on the theory that it is desirable from a national standpoint for America to have a strong merchant marine. A further possibility not to be overlooked is that of the continued Government operation of the ships. In the latter case the industry may be maintained even at a loss.

A large American merchant marine is such a powerful weapon for the furtherance of both commercial and political aims that the fate of the American shipping and shipbuilding industry is of vital importance.

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The organization of American industry for the purpose of equipping, transporting, and supplying the armies in the field and in the training camps effected changes of a permanent and significant character. Production has been more diversified; unusual calls have been made on the resourcefulness of American manufacturers; stability and security have come to some branches of industry which had not hitherto possessed them. Unquestionably, America is now stronger industrially than she was before the war. The effect of the war changes has been, on the whole, constructive. Adjustments will no doubt be necessary. It is not to be expected that all the added capacity will be continually employed. The haste of war production has left some inefficiency and wastefulness in labor and materials which competition will have to eliminate. But America's position is strong. She occupies a more influential place among the nations because of her economic power. This makes the commercial policy of America of great significance. She may use her power in the interests of narrow nationalism and exploitation and become a bulwark to the influences of world imperialism. Or, as we hope, she may use her strength to support a diplomatic policy that will establish in the world the true ideals of democratic control and government.

## CHAPTER VI

### EFFECT OF THE WAR ON INDUSTRY ABROAD

Industrial effect of the devastation of Belgium and France — German chemical and textile industries as illustrating the war's effect on Germany's industrial life — War demand in Great Britain and her textile and steel industries — Problems of her export markets — Japan's industrial expansion during the war — Her steel industry — Her shipbuilding — Her cotton industry — Increased effectiveness of Japanese competition — Scientific research, business organization, and labor.

There is scarcely a business undertaking in the world that has not been affected by the war. The labor force, the character of the products, the markets, the sources of materials, all these have been disturbed. Many of the changes were but incidents of the war, and will cease to be effective after a brief transition period. Indeed, such will be the normal course of events. Those who have looked for a revolutionary transformation in the world of commerce will doubtless be surprised at the rapidity with which trade will fall back into something like its old channels. At certain points, however, the old course will not be resumed. There have been important commercial changes wrought by the war that will be permanent, and these changes will modify materially the competitive conditions under which American industry will operate.

The devastation wrought by the war in the industrial regions of France and Belgium will leave its impress on industry and trade for years. Mere invasion is by itself a sufficiently destructive factor, but to it was added in



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the case of our unhappy allies the wanton destruction and systematic pillage of village, factory, and mine. Villages were razed to the ground. Personal belongings, tools, and materials were carried off. Machinery was removed to Germany. Factories were stripped of metal and equipment. Mines were flooded. Railways were torn up, and the rails were twisted beyond hope of future use. And worst of all, the people were either deported or left to eke out a miserable existence on American and Allied charity or on the little they might save from German greed.

The destruction in the war zone of northern France was almost complete. Throughout a large region containing 20 principal towns and hundreds of villages in the heart of industrial France, little is left but ruins. The Belgian steel furnaces were almost totally destroyed and most of the modern textile mills were rendered incapable of use either through wanton destruction or through the removal of motors and other machinery.

Even though these areas are accorded a prior right to the raw materials and labor of the world, as they will be, the task of rehabilitation is a long one, and for several years it will consume the best energies of the Belgians and French, and will prevent them from competing with their former vigor in international trade.

More far-reaching effects on industry and trade have resulted from the isolation of Germany. The industries of that country have suffered serious loss, both absolutely and relatively. Many of them relied heavily upon foreign countries both for raw materials and for markets. The blockade was thus a double blow in that it limited the supply and rendered the market uncertain for the products of many of Germany's greatest industries.

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Vital changes have occurred in the situation of the chemical industry throughout the world on account of the blockade of Germany. In 1912 the exports of chemical products from Germany amounted to approximately \$205,000,000 while those from Great Britain were but about \$105,000,000. Japan was an importer of most of the staple chemicals, her production being negligible. The position of Germany depended partly, no doubt, upon her abundant supply of raw materials such as potash, but more upon the superiority of the Germans in applied science, upon the protection of her processes by secret patents, and upon business organization.

The chemical industries of Germany have been fairly prosperous during the war. The loss of the export trade, which amounted to one-third of the whole, had a depressing effect for a time, but later the expansion of the explosives industry and the increase of other war orders relieved the situation and fully employed the plants. With the war orders ended, however, the export market will be needed as much as ever.

The most significant thing about the chemical situation is the stimulus that the stoppage of German supplies has given to the chemical industries of other nations. The great development of the industry in the United States has already been discussed.<sup>1</sup> Production has also been greatly increased in Great Britain. Before the war the British industry was in the hands of a number of relatively small concerns, but there has been a decided movement toward concentration in both the general chemical and the dye-making branches. The Levenstein Company was the largest of the dye companies at the outbreak of the war. The British Dyes Company was organized by a number of consumers with

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<sup>1</sup> Chapter III.

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the aid of capital furnished by the Government. These two companies have now united, with the Government exercising its regulatory control.

When imports of chemicals into Japan were shut off, the Government undertook systematically to increase the home production, with considerable success. A profit of eight per cent. was guaranteed by the Government to producers engaging in chemical manufacture under certain conditions. A chemical research laboratory was established under official patronage. There has been a large increase in the Japanese production of sulphuric acid, caustic soda, sulphate of ammonia, chlorate of potash, glycerine, alcohol, acetic acid, and other chemicals. The high price of dyes after the outbreak of the war, together with the increasing demands of the textile manufacturers led to the development of a considerable Japanese dye industry. About 650 small companies were organized from 1914 to 1917, but there were numerous failures. Several larger interests controlling the gas and electric industries have taken up the manufacture of dyes as a by-product with greater success. Their combined product is estimated at about 60,000 pounds monthly, but the number of available chemists is inadequate, and doubt is expressed as to the future of the industry under competitive conditions.

The German textile industries have also felt the effect of their isolation. Germany is dependent upon foreign sources for raw materials for all branches of textile manufacture. Shut off from these sources, the Germans have turned to the production of textile substitutes. The most important substitute used was nettle fibre. Substantial sums of money have been invested in nettle-fibre concerns. Good fabrics are said to be made from it without any admixture of cotton. Wood fibre has

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been used as a source of cellulose, which in turn is used in making both explosives and paper yarns. A material called textilen, composed of 90 per cent. paper and 10 per cent. cotton, has been used in making some forms of military equipment.

In spite of the utilization of substitutes the production of textile fabrics has decreased materially in Germany during the war and the supply of clothing and fabrics has become very low. Just how serious a shortage exists is illustrated by the request made by the City Union of Hotel Keepers at the time of the Leipzig Fair in 1918 that prospective guests bring their own towels and bed linen.

The enforced closing of the mills and their adaptation to substitute materials which apparently have little permanent, competitive value have crippled the German textile industry. Furthermore, the market for the sort of goods that the Germans exported, important among which were cotton specialties such as laces, hosiery, and gloves, and woolen lightweight dress fabrics, velvets, and plushes, has passed into other hands, and all the lost ground will have to be contested for again.

The war activities of the various nations have caused many industrial readjustments. We find, for instance, many new industries in Great Britain and an active interest on the part of the Government in their maintenance. Other industries long established have been forced to conform their interests to war needs. Vast war orders materially altered British industrial conditions. Sir Albert Stanley, President of the Board of Trade, stated that although the nature of the output was very different, the aggregate output of industry during the war was not materially less than before the

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war. Many industries, he said, had completely changed their products and processes, and more than one-half of all people employed had been engaged on work on Government account. These facts signify that the greater part of British industry was on a war footing, and that the readjustment to a peace basis is no small task.

The submarine interfered with shipping. Ships were needed for the immediate services of war, and restrictions were frequently placed on British export industries in order that the entire industrial energy of the nation might be more effectively mobilized to serve war needs.

The textile industry in Great Britain was considerably affected by the war conditions. During a part of the period there was a shortage of raw cotton. This was particularly true during the summer of 1918, when the British ships were so exclusively engaged in the transport of American troops. This shortage, of course, will soon be relieved. The war made conspicuous the dependence of the British cotton industry on American raw cotton, and this stimulated interest in the movement, started before the war, to increase the production of cotton within the Empire. The resolutions of the Paris Economic Conference,<sup>2</sup> which proposed to use raw materials for bargaining, also added to the interest in this matter. Many in Great Britain have felt that their country should not be subject to the political and economic conditions that might result from a control of an essential raw material by another country. Egypt is the chief source of raw cotton within the Empire. Its crop was commandeered by the British Government during the war.

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<sup>2</sup> Quoted in full in Appendix II.

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The British cotton industry before the war relied very largely for its prosperity on its export trade. The war diverted a substantial part of the product from its pre-war destinations to the supplying of the immediate military needs. The best markets for British cotton fabrics are India and the Far East, these regions importing over half the entire exportation. By far the greater amount of this trade has been held during the war, yet a very considerable amount of the Indian market has been taken over by the Indian and Japanese manufacturers. The Japanese have, in a large degree, supplanted the British in the Chinese market. The British Board of Trade Committee on Textile Trades after the War in speaking of the Chinese trade says:

We regard as almost inevitable the gradual elimination of most British grey goods with the exception of the finest standard qualities, and expect more severe competition in the coarser qualities of white shirtings and "T" cloths; but to counterbalance this we look for a considerable expansion in the shipments of the finest grades of bleached goods, and a greatly increased trade in dyed, printed, and woven-fancy articles.

The importance of iron and steel in the carrying on of war has stimulated these industries everywhere, and has caused important changes in the course of trade in such goods. The British steel industry has been materially affected. It was making little progress before the war. The industry was not closely organized, being broken up into a number of independent concerns, and it had for some time been failing to keep pace with the highly organized and growing German steel industry. Such has been the pressure of war, however, that in spite of difficulties with regard to the labor supply, the production of steel increased from about 7,700,000 tons in 1913 to between 10,000,000 and 11,000,000 tons in

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1917. There has been a material increase in plant capacity; in some cases it has doubled or trebled.

There has been also an important development in the process of manufacture. Most of the English steel had been made by the acid process, the 1915 figures being 5,589,157 tons of acid steel to 3,528,724 tons of basic steel. The supplies of hematite ore, which are necessary for making acid steel, proved inadequate, and the production of basic iron and steel has increased greatly. There is an ample supply of ore suitable for the basic process, though the quality is inferior. There has been a very heavy demand for steel, especially for shipbuilding and for munitions. Much of the general export trade had to be given up in order to supply the home demand and the demands of France and Italy, who depend largely upon the United States and Great Britain for their supplies. Practically every section of the trade was under Government control during the war.

The German steel industry was prosperous during the war, the war orders taking the place of the export trade. Profits were larger than before the war. The gross profits of the Krupp Company were 61,900,000 marks in 1912-13, 128,260,000 marks in 1914-15, and 143,360,000 marks in 1915-16. Of course, the depreciation in value of German currency must be taken into consideration. Dividends of 12 per cent. were declared in 1914 and 1915, and large reserves were accumulated. In 1916-17 a dividend of 10 per cent. was declared, after setting aside 88,425,000 marks for depreciation. Very extensive improvements were made. Other steel companies were similarly prosperous.

There has been much speculation concerning the probable effect upon the German steel industry of the transfer of the Lorraine iron deposits to France. The effect

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is often overestimated. The best opinion seems to be that the transfer carries with it greater military than commercial consequences. France is already a heavy importer of coal. Germany has plenty of coal, and it is located not far from the Lorraine iron. Iron ore, as is well known, is sent to the coal, rather than coal to the iron. France will hardly import coal either from Germany, Great Britain, or Spain, and manufacture, on a large scale, steel that will compete in price with steel made near the coal mines of Germany, Great Britain, or the United States. It seems far more likely that the Lorraine ore will move to the German iron and steel manufacturing section as before the war. The difference is that it will appear on the books as an import into Germany and an export from France. It has been suggested that France might withhold the iron from Germany, but those making this suggestion lose sight of the fact that France will probably be as anxious to sell as Germany is to buy. They further fail to make allowance for the probable acceptance by the nations of the principle that there shall be no such discriminatory regulations. It may be, however, that the loss of the Lorraine iron to Germany will cause a slight diminution in its use in Germany and a corresponding increase in the import of the very high-grade Swedish ores.

When the British and German steel manufacturers undertake to resume their export business, they will have to meet conditions altered by the war. As a result of the decentralization of industry caused by the shortage of shipping and of materials in the usual sources of supply, new industries have sprung up in countries hitherto not competing largely in the export trade, and the British and German steel will have to meet American, Canadian, and Japanese competition.



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While the energies of the other belligerents were absorbed in the struggle, Japan devoted her chief energies to supplying the markets which before the war were held by the industrial nations of Europe. The enforced withdrawal of the European powers from the competitive fields of the Far East provided a market for Japanese goods. The war built up a Japanese industry able to compete in world markets. Japan's old industries were greatly extended and many new products were made for the first time. The significant feature of this development is that almost all of her industrial progress had for its main purpose the supplying of the needs not of her domestic, but of foreign markets. The Japanese Government has directly interested itself in production. This war stimulus to industry is one of the most far-reaching and permanent results of the war period.

The steel industry affords an illustration of the development that has been going on in Japan during the war period. The Japanese had depended upon Great Britain, Germany, and the United States for steel and the manufactures of steel. Their own supplies of ore are inadequate. Probably the total reserves do not exceed one year's production of the Lake Superior region. The Japanese Government has maintained a plant for the manufacture of steel for military and naval purposes, and a few small private works have been operated, the ore being secured largely from Korea and China. However, the operations have been on a small scale, the management has been inexperienced, and the laborers have not been highly skilled. The Government works operated at a loss before the war.

The war threatened a very serious situation in the Japanese industries using steel and large amounts of

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machinery. Import from Germany was cut off altogether, and from Great Britain it was drastically curtailed. The United States for a time supplied Japan's needs, but when this country went to war, its exports of steel to Japan were curtailed. Meanwhile, in the earlier years of the war the price of steel rose enormously in Japan. The needs of industry were such that the home production of steel was imperatively demanded. The rapidly expanding shipbuilding industry especially demanded steel, and the United States was practically the only available source of supply. To relieve the situation the Japanese Government offered inducements to the establishment of new steel concerns. As a result a number of new companies were organized and the old ones extended their capacity. The new and expanded enterprises are in the hands of the most powerful business organizations in the country, such as those of the Mitsui, Mitsubishi, and Suzuki Companies.

The raw material for the Japanese steel industry is secured mainly from the Asiatic continent. Mines are being worked in Korea, China, and Manchuria. The Government works obtain most of their raw material from the mines near Hankow, China. These mines have been more securely insured to Japan by the promise exacted in 1915 from China that the Chinese Government would neither take them over nor mortgage them to foreigners without Japan's consent.<sup>3</sup> The Shantung mines, formerly held by the Germans, have also been taken over by Japan and they are being operated by the Government.

Private Japanese companies are establishing large plants not only to smelt ore but to manufacture steel

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<sup>3</sup> See Appendix III for Japan's original demands on China, 24 in number, presented January 18, 1915.

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and steel goods in Manchuria. This is probably the most promising of the new Japanese enterprises. Korea has reserves, problematical in extent, but sufficient for present use, and they are being developed by a large company. A number of shipbuilding companies are undertaking to make their own steel.

Japan has taken advantage of the serious shortage in shipping to develop her shipbuilding industry. In 1914 the Japanese yards turned out 79 ships with a tonnage of 82,000 gross tons. In 1917, 192 ships of 359,000 gross tons were built. In 1918 the yards were building larger ships, and expected to complete 34 ships with a tonnage of 376,000 gross tons. The present capacity of the yards is probably about 1,000,000 tons deadweight, and there is a good demand for the ships at highly remunerative prices, but the lack of material has retarded production. The equipment of the yards is strictly modern. A Government commission has recommended the standardization of construction.

The most important manufacturing industry of Japan is the cotton manufactures. Before the war Japanese competition in cotton goods was confined to the Far East and was not very important there. In 1913 the Japanese supplied 17 per cent. of China's importation of piece goods and sold some cotton hosiery in India. During the war period there have been changes both in the nature and destination of goods. Japanese competition in India is severe, although Japan's relative share of this trade is still small. Not only yarns and grey goods, but bleached, dyed, and printed fabrics are entering the Indian markets from Japan at prices lower than those of British goods. The Japanese have entered the Chinese market with white shirtings equal to the British production and with dyed goods, such as satins and

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brocades. Some yarns, a great amount of cotton crepe, and lisle gloves are being sent to the United States, and hosiery and gloves are being exported to Great Britain and other European countries.

Large profits reaped during the war have placed the Japanese cotton industry on a more secure financial foundation. The Government has interested itself in the industry and assistance has been rendered by banks, by the subsidized steamship lines, and by official commercial agents in foreign countries. Since the chief source of Japanese raw material is the coarse cotton of India, Japanese competition will for some time be confined in the main to coarse goods. Finer grades of raw cotton, however, are being obtained from the United States, and attempts are being made to produce them in Korea.

Japan, as a result of the war, has taken long strides toward becoming a more highly industrialized nation. As compared with the United States and Europe her industries are small and unstable. Her chief competitive advantage is her low labor cost. The expansion of her textile, steel, and chemical industries, in which the competition is and will remain generally confined to the Far Eastern markets, has been considered. In many other lines, however, her industries have developed, and their competition is felt severely in the United States. These include ocean and fresh-water pearl buttons, brushes, matches, lead pencils, knitting-machine needles, surgical instruments, glassware, and earthen- and china-ware. Japanese industries have not been seriously dislocated by the war as have the European industries. They have been developed with the purpose of supplying the markets catered to before the war by Europeans.

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As a result, Japan's need of readjustment to peace times is slight.

Since Japan's industries are so largely organized for export, her export statistics are a good measure of the industrial changes brought about by the war. Her exports for 1913, a pre-war year, as compared with 1917 are given in the following table:

EXPORTS FROM JAPAN, 1913 AND 1917

Group	1913		1917		Per Cent. Increase, 1913- 1917
	Value (000 omitted)	Per Cent. of Total Exports	Value (000 omitted)	Per Cent. of Total Exports	
Foods, beverages, tobacco:					
Unmanufactured	\$12,290	3.9	\$36,639	4.6	198.12
Prepared	18,688	5.9	49,197	6.1	163.20
Raw materials	25,593	8.1	40,620	5.1	58.71
Partly manufactured products	163,540	51.9	361,700	45.3	121.16
Wholly manufactured products	92,180	29.2	293,195	36.7	217.95
Miscellaneous	2,980	1.0	17,747	2.2	495.54
Total . . . . .	\$315,271	100.0	\$799,098	100.0	153.45

An examination of this table will show that Japan was more of an industrial nation in 1917 than in 1913. Of the total value of her exports in 1913, 29.2 per cent. were wholly manufactured goods. In 1917 this class had increased to 36.7 per cent. Relatively a less amount of raw materials and partly manufactured products were exported. Even more striking is the absolute increase of Japan's exports. The exports of wholly

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manufactured goods in 1917 increased 217.95 per cent. over 1913. Equally striking increases occurred in other kinds of goods.

A substantial part of this export trade has gone to the United States. Of all American imports during the fiscal year ending June 30, 1918, 9.67 per cent. were from Japan. This exceeds all previous records. In the fiscal year 1914 only 5.66 per cent. of the total American imports came from Japan.

The Japanese official figures show decided gains in the export to the United States of a number of articles, several of which have been sent in sufficient quantities to be separately listed only since 1917. Some of the more significant increases are shown in the following table:

EXPORTS FROM JAPAN TO THE UNITED STATES, IN YEN  
(Yen = \$0.4985)

Article	1913	1917
Surgical instruments.....	203	477,910
Potteries .....	3,129,701	4,941,791
Toys .....	828,869	3,790,499
Matches .....	22,250	1,728,411
Silk handkerchiefs .....	739,998	2,320,249
Chlorate of potash*.....	.....	1,141,087
Colza oil.....	36,796	2,596,648
Soya bean oil.....	69,049	1,187,493
Cocoanut oil*.....	.....	5,056,160
Cottonseed oil*.....	.....	253,065
Brushes .....	1,250,024	3,716,852
Buttons .....	113,349	2,096,201
Plain habutae.....	4,995,418	16,059,486
Glass and glassware.....	5,534	803,660
Cotton crepes .....	266,441	1,353,808
Electric lamps*.....	.....	230,453

\* Not listed separately until 1917.

Even more striking is the growth of Japanese trade with the Asiatic countries. The increase is especially

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marked in textile manufactures. The following statistics from Japanese official reports indicate the growth of Japanese trade in China and India:

### EXPORTS FROM JAPAN TO CHINA, INCLUDING HONG KONG, IN YEN

Article	1913	1917
Grey sheetings and shirtings.....	7,274,589	27,685,321
White sheetings and shirtings.....	206,069	4,116,208
"T" cloth.....	1,143,318	6,648,449
Cotton blankets.....	113,033	992,606
Cotton flannels.....	932,993	3,995,641
Cotton prints*.....	.....	4,789,397
Cotton bags*.....	.....	1,185,742
Wool blankets.....	3,258	563,241
Woolen cloths and serges.....	129,665	1,653,062
European print paper.....	402,367	4,841,887
Potteries.....	788,949	2,692,233
Insulated electric wire.....	98,883	1,267,805
Electric machinery.....	261,790	740,624
Telephones.....	23,911	202,772

\* Not listed separately until 1917.

### EXPORTS FROM JAPAN TO INDIA, IN YEN

Article	1913	1917
Grey sheetings and shirtings.....	368,013	10,168,437
White sheetings and shirtings.....	152,049	280,752
Cotton blankets.....	3,411	233,777
Mousseline.....	646	337,969
Potteries.....	314,636	1,219,958
Insulated electric wire*.....	.....	464,445
Electric machinery.....	18,674	329,765
Window glass*.....	.....	582,340
Bleaching powder*.....	.....	882,302
Acetic acid*.....	.....	435,898

\* Not listed separately until 1917.

But such figures as the foregoing, considered out of relation to the total trade in the commodities, are likely to be somewhat misleading. When compared with the figures of total trade in these markets, they do not, in

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most cases, show that Japan is dominating the markets in question, but they do indicate very substantial gains. In fact, the emergence of Japan as an industrial nation and as a serious competitor for the markets of the world is one of the most striking and significant commercial facts of the war period.

Before the war the only serious competition that American industries met with in the home and the foreign markets came from Europe. European industries, long established and organized for export business, were in many lines formidable competitors. In spite of the altered conditions resulting from the war, they will continue to be the most important competitors of American industries. Competition in some lines will return slowly to its maximum strength. It may be years before the Belgian glass industry becomes the factor in world trade that it was before the war. France will not immediately return with her former vigor to the production of fine woolen dress goods, silks, embroideries, laces, and ribbons. Her pottery industry, being outside the invaded area, will more quickly return to its pre-war position.

Conditions in Germany will not permit her for some years to regain her former position in world trade. Many of her industries are completely disorganized. Others have so long been occupied with war orders that they will need reorganization before they can supply the peace-time demands. Germany has little raw material and at best it will be difficult for her to get the quantity which will permit her industries to run on a pre-war basis. Many of her most highly skilled laborers have been killed or maimed. Her population has been weakened by the war strain. Her vast selling organiza-



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tions in foreign countries have been destroyed or disarranged. Germany will certainly make great efforts to return to her former position as a manufacturing nation, but she has many economic, to say nothing of political, difficulties in her path.

Great Britain will immediately become a factor in world trade. The increased productive capacity of her great war industries will, with the cessation of war orders, be used to supply the export trade. British industry has been further diversified by the war. Products which before the war were imported are now produced in Great Britain. The British Committee on Commercial and Industrial Policy states<sup>4</sup> that "it is, of course, obvious that the great staple trades, such as coal mining, the iron and steel industry, engineering, shipbuilding, the electrical trades, and the textile and chemical industries are of vital importance to the economic life of the nation, both in peace and war." It then adds: "There are, however, certain special commodities, which, while the branches of industry engaged thereon are not of such magnitude, are essential to national safety as being absolutely indispensable to important British industries, and were supplied before the war entirely or mainly from present enemy sources or from sources under present enemy control." The "key" or "pivotal" industries on which the Committee reported are synthetic dyes, spelter (zinc), tungsten, magnetos, optical and chemical glass, hosiery needles, thorium nitrate, barytes, limit and screw gauges, and certain drugs.

The enforced protection created by the blockade and by the occupation of European industries with war orders has compelled the American consumer to supply his

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<sup>4</sup> British Blue Book, Cd. 9032 (1918).

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needs from other sources. When the Europeans try to return to the American markets they will find them largely supplied by new or expanded industries which sprang up during the war. The United States is no longer dependent on Germany for chemicals, cutlery, surgical instruments, knitting-machine needles, porcelain textile guides, chemical and optical glass, and toys. American full-fashioned hosiery has supplanted the German product of the pre-war period. Since trade between the United States and the Allies has continued to some extent during the war, we have not developed industrial independence in many commodities supplied chiefly by the Allies. As pointed out in former chapters, however, new branches of production have been established and old industries have been extended.

Not only in the domestic market but also in export trade will the increase in the productive capacity caused by the war intensify competition. American industries which before the war regarded export trade as incidental to their business are now planning to specialize in exports. They will be encroaching on old preserves of European industries. In fact, during the war they supplied many markets necessarily abandoned by European nations. With the return of peace, competition will become severe in these foreign markets. All the new developments cannot expect to survive the post-war competition. In the readjustment of international trade, there will be an elimination of the inefficient.

The war has not been without its triumphs in science. The achievements of chemistry have vied with those of physics for first place. Sanitation and the manufacture of gas, gas masks, and explosives have stimulated improvements which will make normal peace production

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more efficient and varied. Airplanes may become a large factor in commerce as a result of the war experiences. Navigation, particularly submarine navigation, has made great advances. Inventions have been called into existence by necessity, new processes of manufacture discovered, old processes perfected. Automatic machinery has been developed. Products and machinery have been standardized.

Germany more than any other nation before the war had recognized the importance of applied science, the value of scientific research in developing the common life of men. Prussianism in its methods was formidable because it was supported by the best intellects of the German nation; but it was, of course, weak, and failed because it lacked the indispensable foundation of moral ideals. The importance of science in industry is realized in the United States and Great Britain more than ever before. Both private and public efforts are being made to apply it. The war stimulated or forced the installation of automatic machines, the improvement of management, the coördination of processes, and the standardization of products.

Business organization has also been affected by the war. Concentration has increased. Inefficient plants have frequently been forced out of business. Individualized industry has been discouraged, and large-scale production, usually under Government supervision, has been developed. Very important as a competitive factor in the future will be the part played by Governments in production, buying, and selling.

From the standpoint of production the war has affected the labor supply of the world both destructively and constructively. Its destructive influences have been most evident in Russia, Germany, Austria-Hungary,

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France, Belgium, and Great Britain. The labor force has been greatly reduced in numbers. Looking at the problem merely from the economic point of view, the actual loss in human life is the most serious loss of the war. Many of the killed and seriously wounded were the skilled workers in important industries. Even those who survive have during the years of hardship in warfare lost skill and perhaps interest in their pre-war tasks. Large sections of the populations of Continental Europe were undernourished during the war period. It will be years before they will be able to return to their old standards of efficiency.

On the other hand, the war has not been without its constructive influences on labor as a factor in production. Thousands upon thousands of women have been forced from necessity to take up the responsibilities of industry. They have become skilled in new lines—some of which employed only men before the war. Women in French munition factories, for example, ran heavy lathes and drills and operated forges and trip-hammers. Nor was the constructive influence of the war confined to women. War itself trained many men along mechanical and organizing lines. Artillery, airplanes, poison gas, the submarine—each called for skill of the highest kind. Dexterity was developed in some countries, particularly in the United States and Japan, by the establishment of new industries and the extension of old.

But more important than labor as a factor in production are the laborers as responsible human beings. In this direction the effect of the war has been revolutionary. Labor is properly demanding a larger share in the responsibilities of industry. The labor problem is now pressing. It is affecting policy and will continue to be a large factor in determining the course of events.

**PART II**

**AMERICAN**  
**COMMERCIAL POLICIES**

. . . for the road to Internationalism lies through Nationalism; and no theory or ideal of Internationalism can be helpful in our thinking or effective in practice unless it is based on a right understanding of the place which national sentiment occupies and must always occupy in the life of mankind.

**ALFRED E. ZIMMERN.**

## CHAPTER VII

### EQUALIZING CONDITIONS OF COMPETITION

Equalizing conditions of competition as a factor in tariff policy — “Infant industry” argument — Argument for protection from military necessity — Doctrine of free trade — Diversification of industry and population and developing the nation’s productive powers — Measuring competitive conditions — Monetary expenses of production *vs.* costs in the sense of sacrifice — What monetary costs include — Materials and resources — Wages *vs.* labor cost per unit of product — Overhead expenses — Interest — Theoretical accuracy in cost accounting not necessary for tariff purposes — Monetary costs of producing sugar in the United States and Cuba — Costs of cotton yarns in the United States and England — Costs of woolen fabrics in the United States and England — Domestic costs compared with foreign prices — Value of domestic conversion costs alone — Labor standards and the tariff — The consumer — The United States Tariff Commission — Taking the tariff out of politics.

Since the first Tariff Act of the United States, enacted July 4, 1789, for the “support of government, for the discharge of the debts of the United States, and the encouragement and protection of manufactures,” a tariff on a great variety of products has been an accepted part of the American fiscal policy. The difference between the advocates of protection and those of “tariff for revenue only” has been largely one of emphasis. Which-ever party was in power, both the revenue and the protective aspects of the tariff were given weight in tariff revisions. Competitive conditions in particular have been of great importance in American tariff controversies. In their tariff platform of 1908 the Republicans declared that: “In all protective legislation the true principle of protection is best maintained by the imposition of such duties as will equal the difference between the cost of

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production at home and abroad, together with a reasonable profit to American industries." "We believe," the Progressive platform of 1912 said, "in a protective tariff which shall equalize conditions of competition between the United States and foreign countries." The Democrats in framing the Tariff Act of 1913 claim to have been guided by the principle of a "competitive tariff."

The war, as has been indicated in the preceding chapters, has radically changed the competitive position of the nations of the world. Invasion and wanton destruction have weakened, industrially, Belgium and parts of France. Lack of raw materials and exclusion from overseas markets have affected adversely certain German industries. Not only in the United States, Great Britain, and Japan, but in Italy, France, Norway, Brazil, and other countries, new industries have been established and old extended as a result of difficulties in transportation, war orders, and the isolation of Germany. In all countries war orders stimulated the development of industry in some directions and war restrictions checked it in others. There emerges from the war an industrial world very different from that which entered it. The currents of competition have been modified, and it becomes desirable for the American nation to consider again whether those industries necessary to the country's welfare are competing on a fair and equitable basis. The policy of equalizing conditions of competition with a fair margin does not require that all industries that individuals may wish to start in the United States should receive protection. To take an extreme case, it would not be sound policy to attempt to encourage coffee production in the United States by means of a tariff that would equalize the conditions of competition between the United States and Brazil. The natural advantages of Brazil are too



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great. The guiding purpose in tariff making should be the nation's welfare. Whether conditions of competition should be equalized or not in a given industry depends on many factors, both political and economic. The framing of tariffs is fundamentally a matter not of statistics or accounting, but of judgment, commonsense, and national policy.

The "infant industry" argument for protective duties is one of the simplest and most generally accepted. The new industries created by the war have given it a renewed significance. An industry may be economically adapted to the United States but unable to exist during its early stages in competition with the long-established industries of Europe. Free competition would delay its development beyond the time when it would be advantageous for the nation to apply its capital and labor to it. A tariff under such conditions provides the necessary security under which the experimental stages of the industry may be worked out. The psychological elements, fear and lack of confidence in new enterprises, are obstacles to new undertakings. Old established industries often have technical, mechanical, and business advantages that make business men hesitate to venture unaided to erect a competing industry. They may be able — and indeed should be — to perfect their technical and mechanical equipment and business organization if relieved from the accidental disadvantage in which they are placed.

Several industries established by war conditions in the United States may be in the position of "infant industries." In this class fall venetians, sueded gloves, and coal-tar dyes, already examined in some detail. The manufacture of venetians has been an established indus-

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try in Great Britain for many years and the technique for finishing these fabrics is highly developed and in some cases secret. Before the war Germany was the chief source of sueded gloves and had developed great skill in weaving and finishing the fabrics from which they are made. The German dye industry was perhaps the most conspicuous case of the acquisition of national control of an industry by means of superior technical equipment and business organization. It would have been hopeless for any country unaided by a tariff to attempt to compete with Germany in this field. Technical and administrative disadvantages, however, must in time be overcome. No industry can continue indefinitely to claim the "infant industry" argument as a justification for duties on the products of its foreign competitors. The protected industry must become efficient, but even efficient industries may have a claim to protective measures that will justify equalizing competitive conditions for them. There are other grounds for protection.

Military necessity may justify the encouragement, by means of bounties or tariffs, of industries which on purely economic grounds would not be maintained. War-time experiences have made this amply evident. Certain industries have proved to be essential for national safety. They include not merely those producing explosives and munitions, but those that produce, or are contributory to those that produce, the great essentials of national life. Germany planned her agricultural and manufacturing activities with reference to her military efficiency. Her interest in the maintenance of her dye industry, for example, was no doubt due in a large measure to its close relationship with the high-explosives

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industry. In some cases, as we have already illustrated, the operations for making dyes and explosives are identical until the final stages, and in many other cases the equipment and technical staff can be turned to the making of war materials. Not only is the dye industry a direct military asset, but it is essential to the successful operation of the textile and other important industries.

The war stimulated in Great Britain an active interest in the industries "essential to the future safety of the nation." The final report of the British Committee on Commercial and Industrial Policy after the War<sup>1</sup> recognized the vital importance to the economic life of the nation of the "great staple trades, such as Coal mining, the Iron and Steel Industry, Engineering, Shipbuilding, the Electrical Trades, and the Textile and Chemical Industries," but added that there were "certain special commodities which, whilst the branches of industry engaged therein are not of such magnitude, are essential to national safety, as being absolutely indispensable to important British industries." The industries producing these special commodities were designated "key" or "pivotal" industries. Those enumerated by the British Committee were synthetic dyes, spelter (zinc), tungsten, magnetos, optical and chemical glass, hosiery needles, thorium nitrate, limit and screw gauges, and certain drugs, but it added that "new essential industries may emerge in the future."

The British Government's method of encouraging essential industries may be illustrated by its action in the case of synthetic dyes. An alternative for the tariff is found in a memorandum by the British Board of Trade<sup>2</sup> on the "Scheme for the Allocation and Adminis-

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<sup>1</sup> British Blue Book, Cd. 9035 (1918), p. 31.

<sup>2</sup> British Blue Book, Cd. 9194 (1918), p. 2.

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tration of the Funds provided by Parliament for the Development of the Dye Industry by Means of Financial Assistance to Companies and Firms in Aid of Developments, Extensions and Research."

The purpose of this State aid to the dye industry is to insure that the requirements of the textile and other trades of the United Kingdom and of other parts of the British Empire, which are largely dependent upon an adequate supply of dyes, are met within a reasonable period to an extent sufficient to "make them independent of German dyestuffs." The memorandum continues:

It is no part of the object of the scheme to assist financially the formation or development of any dye-making business in the interest of the business as such; but it is recognised that the developments of the manufacture of dyes on a scale more than sufficient to meet British requirements, and enabling a substantial export trade to be carried on, is most desirable if the industry is to be firmly and permanently established, and the cost of production brought down to a point which will make competition with the very large scale industry of Germany commercially possible. Neither financial assistance nor special priority for materials and labour will be available for the extension of the manufacture of dyes already in sufficient supply for Empire markets, nor for any general development not important as contributing directly to the main purpose. If the industry is established sufficiently to meet British demands at reasonable prices the object of the Government will be attained, and a sound foundation laid for such further developments by the unaided efforts of the manufacturers as may appear commercially expedient and practicable. The policy so far as regards priority is determined primarily by the present serious shortage of labour and materials; so long as that continues, such resources as are available must be utilised in the first instance for securing the supplies of dyestuffs necessary for British industry, and only thereafter and in so far as there may be a surplus of labour and materials, can development, on a larger scale and determined by ordinary commercial considerations, be allowed.

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As the Government financial assistance to be given to the industry will be governed by these considerations, it is desirable to make quite clear the principles on which the administration of such assistance will proceed. The financial assistance proposed is of two kinds:—(A) Loans; (B) Grants-in-Aid of (i) Buildings and Plant, and (ii) Research.

(A) *Loans* will be for the purpose of assisting in the provision of capital at a commercial rate of interest for the further development of the Dye Industry, particularly in the direction of the manufacture of those special classes of dyes which are reasonably necessary for dye-users but are not being manufactured in this country at all, or are manufactured on an insufficient scale, and require for their adequate manufacture in a short time an unduly heavy outlay on plant and equipment.

(B) *Grants* will be of two kinds:—

(i) Grants-in-aid of the cost of plant and buildings provided mainly for the purpose described in the preceding paragraph, such grants being intended to compensate for the increase in the cost over the normal and to meet special depreciation and obsolescence due thereto, or for other special circumstances due to war conditions.

The grants are to be paid as the work on account of which they are granted proceeds, but they may also be retrospective for any period dating from or since the 1st January, 1916. These grants will be subject to repayment to the extent of the whole or any portion of the increased cost which may be recovered from the Inland Revenue as a reduction of Excess Profits Duty consequent upon any allowance made by that Department on account of such special depreciation or obsolescence.

Grants-in-aid under this head will not exceed 40 per cent of the cost of the plant and buildings on account of which the grants are made.

(ii) Grants-in-aid of Research. For this purpose research is to be understood to mean specialised technical research conducted in connexion with the actual manufacture of dyes and advanced intermediates, and, as accessory thereto, for the purpose of discovering new dyestuffs or intermediates and the discrimination of those of value for the purposes of the in-

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dustry, or new processes for the production of known dyestuffs and the improvement of their quality. It is considered that this technical research, whilst distinct from the actual technical routine of manufacturing operations, is nevertheless an inherent part of the industry and properly enters into the cost of production, since experience shows that in normal times a constant flow of new colors or varieties of colors is necessary for the maintenance of those dye-using trades which are subject to outside competition. Further, whilst the industry is in process of establishment, the functions of the research department are doubly important, as, besides the task already mentioned, it has as its primary duty the development of processes for the production of colours of which, though the fundamentals of their manufacture may be known, there is no output in this country or only an insufficient one. Research of this character, which must be carried out in close connexion with actual manufacturing operations, involves expenditure on equipment, some of which at least may not result in any commercial advantages for a considerable time; and in the special circumstances of the industry it appears to be a proper subject of State aid.

Under this proposed plan no dyes are to be imported into Great Britain without special license. A Trades and Licensing Committee, consisting of a chairman appointed by the Board of Trade, four members representing color users, and four members representing dye manufacturers, is to determine what colors and intermediates shall be licensed to be imported into the country and in what quantities. Licenses will, no doubt, be refused in the case of all dyes that are being manufactured in Great Britain in quantities sufficient to supply the British consumer. A recent order of the Australian Government prohibiting the importation of dyes and dyestuffs not of British manufacture indicates that the British Dominions may coöperate in fostering the British dye industry.

A significant factor in the situation is that the dye

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industry in Great Britain is coming under Government control. Two large concerns manufacturing dyes in Great Britain, the British Dyes, Limited, and Levinstein, Limited, have been combined. The British Dyes, Limited, has been organized since the outbreak of the war. A large part of its capital was supplied directly by the British Government, and the board of directors is controlled by representatives of the Government. Levinstein, Limited, was controlled by private capital. A third large company in England is L. B. Holliday and Company, Limited.<sup>3</sup>

This plan of State assistance to the dye industry in Great Britain is very significant. It is an alternative for a protective tariff. Prohibition of import, licenses, loans, subsidies, and grants, together with a tendency to nationalize industry, have very far-reaching possibilities. Passing over the difficulties of administration and the adjustment of difficulties within the country itself, there should be mentioned the possibility of discriminations against foreign producers, and also the difficulty that will arise in any attempt to export dyes produced in factories that have been assisted by the State. If such assistance enables these factories to undersell foreign competitors, there will be a tendency to raise countervailing tariffs against them.

Each nation will have to determine from its peculiar situation what essential industries should be encouraged from the standpoint of national safety. In the United States practically all the great staple trades are well established, but our experience with "key" or "pivotal" industries was not unlike that of Great Britain. In some cases direct state aid may prove desirable, but in most cases — synthetic dyes included — the tariff is the

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<sup>3</sup> *Commerce Reports*, December 30, 1918, p. 1203.

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most satisfactory method of establishing national security.

Before a more general theory of protection is suggested, brief reference should be made to the origin and application of the free-trade doctrine. In the seventeenth and eighteenth centuries the interference of the State with industry and trade became so disturbing that thinkers began to lean to the other extreme, and by the end of the eighteenth century many were willing to say that there should be no State control. Rather they said: "Let commerce take its natural course, remove restrictions, adopt free trade, let competition have free play, and let Governments keep their hands off, *laissez faire*." These ideas have been wholesome as a protest against authority and regulation. Many times have they served effectively against outworn institutions; they have afforded a standard by which to measure cause and effect in economic life. It is when they have been urged as a positive policy that they have frequently misled. Perhaps the most woeful failure of this practice of *laissez faire* has been in industry, where individuals, pleading their divine right to run their own affairs, have established a system of exploitation under which society is still struggling. Many thinkers who have abandoned the ideas of *laissez faire* in industry and other social relations hold it desirable in international trade, and, therefore, are opposed to a protective tariff except on a few special grounds.

Unfortunately, the problems of commercial policy are not so simple as they appear to those who regard free trade as a "harbinger of an Utopia." International problems cannot be solved by a single formula. Imposition of the same economic policy upon nations in dif-



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ferent stages of development does not necessarily result in equality and fairness. It may result in most vicious inequality.

Great Britain is not a free-trade nation solely because she believes in "the obvious and simple system of natural liberty" advocated by Adam Smith and others of the classical economists, nor does she hold to the doctrine because of philanthropy. In 1848 Karl Marx argued that the movement to repeal the Corn Laws in Great Britain was merely the working out of the Ricardian theory of wages and profits—that cheap food makes low wages, low wages high profits.<sup>4</sup> If this be too severe, it is at least as near the truth as the statement that free trade in Great Britain was the application of pure philosophy to public affairs. Freedom in world commerce is an important factor in maintaining Great Britain's position as a great power. Set in the midst of the sea at the door of Europe, she early became the chief sorting, packing, and transshipment point in the world. Her industries, which are great and varied, are largely so because of the coming and going of her ships. A large portion of the raw material her industries use

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<sup>4</sup> Karl Marx, *Free Trade* (Brussels, January 9, 1848), p. 31. Marx says:

"The English workingmen have appreciated to the fullest extent the significance of the struggle between the lords of the land and of capital. They know very well that the price of bread was to be reduced in order to reduce wages, and that the profit of capital would rise by as much as rent fell.

"Ricardo, the apostle of the English Free Traders, the leading economist of our century, entirely agrees with the workers upon this point.

"In this celebrated work upon Political Economy he says: 'If instead of growing our own corn . . . we discover a new market from which we can supply ourselves . . . at a cheaper price, wages will fall and profits rise. The fall in the price of agricultural produce reduces the wages, not only of the laborer employed in cultivating the soil, but also of all those employed in commerce or manufacture.' "

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must come from abroad, and foreign markets are essential to their prosperity. Although the war has demonstrated the limitations of free trade even for Great Britain and has led her to consider protective measures, it is probable that for a long time to come British statesmen will consider that as a general policy their country's welfare depends upon free trade among the nations. To her and to other nations similarly situated (The Netherlands, for example) the policy of free trade will seem best adapted to their national needs.

Free-trade economists have frequently urged in support of their doctrine that it prevents wars, but the free movement of goods in international trade is not necessarily a guarantee of peace. Rather it may stimulate hostility by forcing manufacturers to seek foreign markets where they come in conflict with the competition of foreign rivals. The fallacy in the argument that free trade brings peace is in the assumption that the interests of nations are always complementary and that international division of labor will work without friction. Society is not a machine, and it cannot be treated as a machine. The interests of nations are sometimes antagonistic, and they would continue to be so at times under universal free trade as they are in a world of tariffs.

Free traders have frequently admitted the validity of the infant-industry and military arguments for protection, but have insisted that in so far as a nation applies them, it sacrifices wealth to defense or to the (faint) possibility of an offsetting gain in the future. They hold that protection penalizes the efficient to support the inefficient industries, and that if individual effort were allowed free play, it would apply itself to those industries in which the nation has a natural advan-

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tage, and the maximum national wealth would be the result. At the very outset a serious objection to this position is that individual effort does not operate quickly and freely. It is restrained on the one hand by psychological factors — fear, habit, and reluctance, and on the other by the designs and plans of man. But the advocate of protection does not press this objection; he takes issue with the conclusion that the interference of government with industry tends to reduce national wealth. That free trade is the most desirable method for developing the productive powers of Great Britain is no reason why it is so for all other countries. Other nations whose economic advantage lies not primarily in the extension of overseas trade but rather in the turning of vast natural resources into manufactured goods may hold with propriety to a different theory of international trade. The United States and Germany, for example, have chosen to diversify their economic life by means of tariffs, stimulating the growth of industries which without protective measures would have developed slowly, if at all, in competition with the British export industries; and it would hardly be safe to venture the assertion that these nations have shown a less productive capacity than has Great Britain, or that they are less wealthy today than they would have been had they adopted free trade. More important than the immediate availability of goods for consumption which the free-trade school emphasizes is the productive capacity of a nation. It is upon the latter that the wealth of a people really depends.

In what sort of society then does the productive capacity of a people attain its maximum? The advocate of protection answers that it is in a well balanced, complex society, in which both agriculture and manufactur-

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ing are given their proper places. Diversity in production and population, he contends, produces not only a more wholesome, but a wealthier nation. It is no answer to this position to point out that there are individual industries that could not exist under free trade. Viewed as separate economic units this may be true, but as a part of the national system of production it is not necessarily true. The stimulus of diversified interests, acting and reacting on each other, calls into play resources of mind that could not be developed in a simpler society.<sup>5</sup>

Alexander Hamilton has indicated the principles upon which any sound system of protection must rest. His chief argument for protection was based on the proposition that diversification of industry increases the power and wealth of the nation. "The aggregate prosperity of manufactures and the aggregate prosperity of agriculture," he says,<sup>6</sup> "are intimately connected." Hamilton was interested in discovering in what form of society the largest number of human talents would be brought into play and the greatest quantity of activity stimulated. He wrote again:<sup>7</sup>

When it is considered . . . , that the results of human enterprise and exertion are immensely augmented by the diversification of their objects; that there is a reciprocal reaction of the various species of industry upon each other mutually beneficial, and conducive to general prosperity, it must appear probable that the interests of a community will be most effectually promoted by diversifying the industrious pursuits of its members and by regulating the political economy so that those who have been particularly qualified by nature for arts and manufactures may find the encouragement necessary to call forth and reward their peculiar talents.

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<sup>5</sup> Cf. F. List, *Das nationale System der politischen Ökonomie*, and M. E. Hirst, *Life of Friedrich List*.

<sup>6</sup> "Report on Manufactures," 1791, *Works of Hamilton*, vol. iv, p. 139.

<sup>7</sup> W. S. Culbertson, *Alexander Hamilton*, p. 146.

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It was Hamilton's belief that the enlargement of the field of enterprise would bring into action many available powers which would remain latent in a more homogeneous form of society. By encouraging manufactures it was his belief that men would be stimulated to new ambitions to produce wealth. He says:<sup>8</sup>

To cherish and stimulate the activity of the human mind by multiplying the objects of enterprise is not among the least considerable of the expedients by which the wealth of a nation may be promoted. Even things in themselves not positively advantageous sometimes become so, by their tendency to provoke exertion. Every new scene which is open to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort.

The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded, in proportion to the simplicity or variety of the occupations and productions which are to be found in a society. It must be less in a nation of mere cultivators, than in a nation of cultivators and merchants; less in a nation of cultivators and merchants than in a nation of cultivators, artificers, and merchants.

Having determined upon what industries are desirable, either on the infant-industry, military, or diversification and productivity arguments, it becomes necessary to measure their competitive strength as compared with their foreign competitors. In some cases no tariff will be necessary; in others it will be necessary to equalize competitive conditions and to allow in addition a fair margin to care for inevitable fluctuations of industry and commerce. The competitive strength of an industry depends upon a great variety of complex factors. Tariff problems so far as they relate to production are also industrial problems. They comprehend the availability of raw materials; freight rates, transportation, and

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<sup>8</sup> "Report on Manufactures," 1791, *Works of Hamilton*, vol. iv, p. 94.

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proximity to markets; the supply of capital, business organization and management, technical progress and the development of scientific research; patents and processes; the use or absence of machinery, automatic or otherwise; the amount, adaptability, skill, and organization of labor; and government taxes, restrictions, co-operation and assistance.

How then shall the competitive strength of nations be measured? It is here that a study of the cost of production is of service. "Cost," it should be said at the outset, may refer to the monetary outlay necessary to put a commodity on the market, or it may refer to a very different thing — the actual labor-pain and sacrifice involved in production. Dr. F. W. Taussig has thus expressed this distinction:<sup>9</sup>

These various outlays, or equivalents of outlay, are sometimes spoken of as "expenses of production." When that term is used and is distinguished from "cost of production," emphasis is laid on the fact that the employing capitalist is concerned solely with what he pays for labor, for materials, for the use of free or fixed capital. When, on the other hand, the term cost of production is used so as to imply a distinction from expenses of production, reference is made to the sacrifices undergone; to the labor of the hired workman, and not to his wages; to the trouble, anxiety, and work of superintendence of the employer, not to his profits or ordinary gains; to the previous saving by which the capital has been accumulated, not to the interest on that capital. As will be seen at a later stage, some of the most important and difficult problems of economics connect themselves with the distinction between cost of production in the sense of labor and sacrifice, and expenses of production in the sense of outlays.

Each of these ideas must be considered in the ultimate determination of the tariff question. The actual sacrifice

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<sup>9</sup> *Principles of Economics*, vol. i, p. 172.

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of the laborer, manager, and capitalist is a factor to be considered in determining whether or not a given industry is to receive protection. But monetary costs are helpful in determining the ability of an industry to compete. The expense of producing a given product reflects the composite strength of the industry, taking into account the different competitive factors which have been mentioned.

The term "cost of production" embraces, in the first place, the cost of materials. If an industry has nearby a plentiful supply of raw material, its material cost, other things being equal, will be less than the cost to a competitor that must transport its raw material from a great distance. In like manner, if the quality of raw material — quicksilver ore, for example — is poor in one country, the material cost will be greater per unit of finished product than in the competing country where the quality of the raw material is superior.

In the next place, cost of production embraces labor cost. In a study of the comparative position of nations, it is necessary to determine the labor cost per unit of product produced. Wage scales are significant in the study of the living conditions of different peoples and in determining ultimately the question whether from a social standpoint a tariff is desirable in a particular industry, but in studying the competitive condition in an industry — its ability to compete in the production of a given product, the more pertinent consideration is the labor cost per unit of product. Economic writers of free-trade leanings have asserted that it is not the low-wage but the high-wage countries that are to be feared in competition. Efficiency in the latter case, it is said, is the cause of, and makes up for, the difference in wages paid to the individual. On the other hand, in tariff

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controversies before Congress comparative wage scales have been presented as conclusive arguments for the protection of American industry. It has been shown that wages in foreign countries are generally lower, and sometimes very much lower, than wages in the United States. These facts have been used ostensibly to argue for the protection of American labor, but in fact as arguments for the protection of American industry. We know that wages per laborer are less in most foreign countries than they are in the United States. Important as these comparisons may be from a social point of view, their value for measuring competitive conditions is not so great as the labor cost per unit of product. It is conceivable that because of the high efficiency of American labor, supplemented by American machinery, in some industries, the labor cost per unit of product might be less here than in a given foreign country at the same time that wages per man are higher. The answer to both of these questions is in a study of costs per unit of product in which the wages paid and the efficiency of laborers, of the machines on which they work, and of the direction of their efforts will all be taken into consideration.

Finally, cost of production embraces the so-called overhead expenses or "burden." In them are included the expenditure for taxes, managers' salaries, general repair, clerical labor, depreciation, and sometimes rent and interest. They will reflect technical, financial, or managerial advantages as the result of which an industry may have a lower cost per unit of product. Although a detailed discussion of the many factors in cost accounting need not here be entered upon, something should be said in respect to interest. There is an important reason why interest should be included in the cost of production for purposes of comparison with foreign costs, and that is



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the fact that a commodity may be made in one country largely by hand labor with the use of little productive capital, whereas in another country the product may be made by machinery with the use of little labor. In such a situation it obviously would be unfair not to take into consideration the large interest charges upon capital investment in the one country as compared with the other. Just as one may not adequately compare the efficiency of two departments in a factory, one of which uses hand processes and the other mechanical processes, without counting interest upon the capital tied up in machinery, so likewise one cannot compare the efficiency of industries as between nations without taking into consideration the interest charges in each case.

Objections have been made to the use of cost of production as an aid in tariff making, usually without suggesting any concrete substitute. It is said that definite costs cannot be obtained, and that because they vary so from factory to factory, they are of comparatively little value. But costs are no more uncertain and do not vary more than does industrial life as a whole. Variety and difference are inherent in the problem. Cost accounting is a scientific attempt to measure the uncertainty and change in industrial life, and by measuring the variations it tends to bring about greater certainty and greater uniformity. If cost accounting is rejected as one of the media through which comparative competitive data are to be obtained, we abandon one of the best. Alone it is not adequate, but it measures with a common comparable measure the many complex competitive factors which enter into production. Incident to any cost investigation, of course, is a careful examination of a large amount of collateral data relating to competitive conditions.

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Theoretical accuracy in cost accounting, important for the manufacturer, is unnecessary for tariff purposes. Although a two per cent. error in costs may be objectionable from the standpoint of the manufacturer, it is of slight importance to the legislator who is hesitating between a duty of 25 per cent. and 35 per cent. Many of the technical difficulties of exact cost accounting—interest, the rate of depreciation, the allocation of overhead and general expenses, and the capital *vs.* revenue problem, need not be worked out to the limit of scientific accuracy. In the pulp and paper report of the Tariff Board under the administration of President Taft, for example, an arbitrary figure for depreciation was adopted after careful consultation with two leading engineering concerns in that industry.<sup>10</sup> The cost problem is, in fact, not so difficult as it seems to the expert, because, in the first place, a fairly accurate approximation is possible, and in the second place, an approximation is entirely adequate for tariff purposes.

The gathering of comparative cost data is really the function of an international commission such as will be discussed subsequently.<sup>11</sup> But it is not beyond the ability of a domestic commission to get foreign costs sufficiently accurate for tariff purposes. The United States Tariff Commission has power to investigate the "conditions, causes, and effects relating to competition of foreign industries with those of the United States, including dumping, and cost of production."<sup>12</sup> War conditions have prevented the Tariff Commission from mak-

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<sup>10</sup> "Report on the Pulp and Newsprint Paper Industry" (1911), pp. 24 and 73.

<sup>11</sup> Chapter XVI.

<sup>12</sup> See the Act creating the Tariff Commission, Sec. 704, printed in Appendix IV.

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ing any extended investigations abroad, but some interesting comparisons are found in a study of the sugar industry.<sup>13</sup>

Sugar is essentially an agricultural product, and like other agricultural products is subject to the law of varying costs. In the domestic beet-sugar industry, as in the cane-sugar industry in Cuba, Hawaii, Louisiana, and Porto Rico, there are competing factories producing at widely varying costs per ton of sugar produced, and the forces of demand and supply, far from tending to reduce all of these varying costs to a common level, tend rather to increase the disparity between the highest- and lowest-cost producers who can continue to compete in the same market. Leaving out of consideration a small percentage of abnormally high-cost concerns which the forces of competition are in fact tending to eliminate, there will, therefore, be found in each region a "marginal" firm whose costs are such as to leave it a bare living profit and many lower-cost firms that receive a progressively greater and greater profit, technically known as "economic rent." It is obvious, therefore, that it is only the marginal firms whose costs must be met by the prevailing price in order that they may survive. All of the others can suffer a greater or less diminution in price and still do a profitable business.

The table on page 124 shows the output and cost per ton of sugar produced for beet-sugar factories in the continental United States and for cane-sugar factories in Cuba for 1916-17.

These statistics are cited here merely to illustrate how costs may be of service in tariff making. The sugar tariff should not be determined from this table. The

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<sup>13</sup> United States Tariff Commission, "Costs of Production in the Sugar Industry."

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OUTPUT AND COST OF PRODUCTION PER TON OF SUGAR PRODUCED  
FOR BEET SUGAR FACTORIES IN THE CONTINENTAL UNITED STATES  
AND FOR CANE-SUGAR FACTORIES IN CUBA, CLASSIFIED BY COSTS IN  
GROUPS OF FIVE FOR THE YEAR 1916-17

Group	Output		Cost per Ton*	
	Beet Sugar, United States, short tons	Cuba	Beet Sugar, United States	Cuba
1	178,705	442,750	\$47.31	\$44.57
2	78,485	489,645	56.38	45.31
3	102,066	136,615	59.51	49.70
4	83,123	94,330	61.90	50.58
5	54,765	151,812	62.96	51.23
6	53,443	286,145	63.94	52.46
7	51,743	289,509	66.50	60.04
8	40,028	157,958	68.42	63.09
9	43,120	196,583	71.95	64.54
10	46,228	146,689	74.92	66.77
11	29,467	106,235	76.39	67.33
12	28,669	117,221	80.29	68.07
13	16,686	85,176	88.76	68.94
14	12,312	55,238	99.38	69.41
15	6,026	120,091	123.48	70.49
16	.....	154,707	.....	71.33
17	.....	92,734	.....	73.27
18	.....	60,400	.....	73.05
19	.....	82,062	.....	73.71
20	.....	81,309	.....	76.02
21	.....	39,357	.....	78.65

\* Cuban sugars are raw and beet sugar is granulated. Before being entered in the column the costs of the granulated beet sugar as computed from original data were reduced by the estimated difference in cost of producing raw and granulated sugar.

year 1916-17 was an abnormal one and the figures of a pre-war year should be considered also. They would show a wider difference between domestic and Cuban costs. We import from Cuba about one-half of our annual sugar consumption, and it is the cost of the Cuban marginal producer that is reflected in the New York price. Importations from other foreign countries are negligible, and although they would increase if Cuba's preferential

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rate were removed, they would not be a more serious factor in competition than the Cuban sugar.

How the costs in the table are to be used in tariff making depends on policy. Representative factories in the United States and Cuba might be determined upon and the tariff fixed to cover their difference in costs with a fair margin. Or it may be decided what marginal American producer should in the circumstances be allowed to continue in business and the tariff fixed at such a point as will protect him. In the table the Cuban marginal cost (\$78.65) lies between the costs of the eleventh and twelfth group in the American cost column. Assuming that the figures in the foregoing table alone were used for determining the tariff rates, if the present tariff were removed and the price fell to the cost of the Cuban marginal producer, the American factories in the first 11 groups would, other things being equal, be able to survive and the others would be eliminated. But other things would not be equal. If some American producers were forced out, new Cuban producers would take their place, the Cuban marginal cost would rise, and more American factories would be able to stay in business. Also if the tariff were removed and the price of sugar fell in the domestic market, its consumption would increase and the fall in price would not correspond in amount to the duty removed. Other factors, however, should be considered likewise. Statistics, as has been said, are only of service in tariff making when used with judgment and commonsense. The tariff is not a problem in mathematics.

To obtain cost data from abroad is difficult but not impossible. Only in exceptional cases, it is true, is it possible to examine the actual cost sheets of foreign concerns, but an intelligent study by men trained in eco-

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nomics and accounting methods of the competitive facts in foreign countries will enable them to draw conclusions sufficiently accurate for tariff purposes. In almost every case information is available upon the sources and prices of raw materials, wage scales, and the general efficiency of labor, the amount of machinery used, the hours which employees work, and the general facts about overhead expenses.

One of the most successful studies of comparative costs of production was made by the Taft Tariff Board in studying the cost of producing cotton yarns in the United States and Great Britain.<sup>14</sup> As an illustration of the results obtained, the comparison of yarn conversion costs<sup>15</sup> in England and the United States is given in the table on the opposite page.<sup>16</sup>

Elaborate comparative data on cost of production were also obtained by the Taft Tariff Board on wool growing and on the manufacture of tops, woolen and worsted yarn and cloth, and ready-made clothing.<sup>17</sup> The application of these data to wool legislation proposed in the second session of the Sixty-second Congress is made in an article reprinted as an appendix to this volume.<sup>18</sup> To take an example here: Sample No. 28 on which the Tariff Board obtained comparative costs was a man's fancy woolen suiting weighing 13 ounces per yard. The costs are on the basis of one pound of cloth, and the differences between this country and Great Britain are given. The difference in the conversion cost for mak-

<sup>14</sup> "Cotton Manufactures," H. R. Doc. No. 643, 63d Cong. 1st Sess. (1913), vol. ii, pp. 398-426.

<sup>15</sup> Conversion cost is the cost of converting the raw material into the finished product and does not include cost of raw materials.

<sup>16</sup> *Op. cit.*, p. 414.

<sup>17</sup> "Wool and Manufactures of Wool" in four volumes, H. R. Doc. No. 342, 62d Cong., 2d Sess. (1912).

<sup>18</sup> Appendix V.

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## COMPARATIVE COTTON-YARN CONVERSION COSTS IN ENGLAND AND THE UNITED STATES

Yarn	Where made	Labor Cost	Other Costs	Total Conversion Cost
Warp No. 30:				
Mule	England	\$0.013628	\$0.011092	\$0.024720
Ring	U. S.	.016710	.019583	.036293
English, per cent of American		81.56	56.64	68.11
Warp No. 40:				
Mule	England	.019468	.015846	.035314
Ring	U. S.	.024185	.028343	.052528
English, per cent of American		80.50	56.90	67.23
Warp No. 50:				
Mule	England	.026207	.021321	.047538
Ring	U. S.	.033420	.032167	.072587
English, per cent of American		78.42	54.43	65.49
Filling No. 30:				
Mule	England	.013538	.011018	.024556
Ring	U. S.	.014194	.016636	.030830
English, per cent of American		95.38	66.16	79.65
Filling No. 40:				
Mule	England	.019124	.015565	.034689
Ring	U. S.	.020769	.024341	.045110
English, per cent of American		92.08	63.96	76.90
Filling No. 50:				
Mule	England	.025616	.023550	.046466
Ring	U. S.	.028720	.033650	.062378
English, per cent of American		89.19	69.98	74.41
Filling No. 60:				
Mule	England	.033109	.016948	.060057
Ring	U. S.	.036762	.043022	.079845
English, per cent of American		90.06	39.39	75.22
Filling No. 70:				
Mule	England	.041828	.034034	.075872
Ring	U. S.	.046534	.054537	.101071
English, per cent of American		89.89	62.40	75.07

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ing the top in a pound of cloth was \$0.0049, for yarn \$0.057, and for cloth \$0.18, making a total difference of \$0.2419 in the conversion cost of one pound of the specified cloth. Its price was estimated at \$0.59 per pound. The *ad valorem* tariff rate then necessary in the case of that sample to equalize the difference in cost of production was 41 per cent.<sup>19</sup>

In case foreign costs cannot be obtained, foreign prices may be available, and with them at hand significant comparisons may be made for tariff purposes. In fact, although the study of domestic costs is essential, the securing of foreign costs is not. It is the price of the foreign exporter, not his cost, that the domestic producer must meet. Even if the amount the foreign producer pays out as a matter of cost cannot be obtained, the price he sells his goods for can be obtained, and the question is, can the home producer meet this competition? This question cannot be answered without knowing domestic *costs*. Domestic *prices* disclose what a producer *does* sell his goods for, not the minimum amount that he must have to stay in business. Although a comparison between domestic costs and foreign costs is highly desirable, when obtainable, and even a comparison of domestic and foreign prices may be helpful, the fundamental question is touched by a comparison between domestic *costs* and foreign *prices*.

A danger must not be forgotten in collecting foreign prices. Prices selected should represent the normal competitive strength of the foreign industry in its principal market. Dumping prices present a special tariff problem, dealt with in a later chapter.<sup>20</sup> Factory prices,

<sup>19</sup> Appendix V, Table 10. Many other cases and the method of their computation are contained in this article.

<sup>20</sup> Chapter VIII.



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uncomplicated by middlemen's profits and commissions, are desirable. Trade discounts, if they exist, should be allowed for.

A study of domestic costs may be useful for tariff purposes even if neither foreign costs nor foreign prices can be obtained for making comparisons. If the domestic conversion costs are known, they at least indicate the maximum tariff duty. No one advocates that the tariff should amount to the total cost of the American product. Usually all that is asked is a tariff sufficient to equalize the difference with a fair margin.

In the debate on the Tariff Act of 1913 Senator Robert M. La Follette used the cost figures of the Taft Tariff Board on cotton cloths in this way.<sup>21</sup> His most important table, given as an appendix to this volume,<sup>22</sup> reproduces the domestic conversion cost on the 100 cotton fabrics investigated by the Tariff Board and compares them with duties in the Payne-Aldrich Tariff Act, in the bill then pending before the Senate, and in his proposed substitute bill. Sample No. 34, for example, was fancy white goods, 8.47 square yards to the pound, bleached. Its total American conversion cost per square yard was \$0.0699, and the total English selling price per square yard, on which duty would be assessed if it were imported, was \$0.1968. The Payne-Aldrich Act duty was specific, and on this fabric amounted to \$0.11. The Senate bill proposed 30 per cent. *ad valorem* on this fabric, and at the price then

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<sup>21</sup> *Congressional Record*, vol. 50, pt. 5, 63d Cong. 1st Sess., September 9, 1913, p. 4589 *et seq.* Cf. Tariff Board, "Cotton Manufactures," H. R. Doc. No. 643, 62d Cong. 2d Sess. (1912), p. 442 *et seq.*

<sup>22</sup> Appendix VI.

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prevailing the duty would have been \$0.059. The La Follette bill proposed 25 per cent. *ad valorem*, or a duty on the prevailing price of \$0.0492.

Before leaving the subject of how the amount of tariff may be determined, it should be said that elaborate detailed cost and price studies are not necessary in the case of every article affected. Less comprehensive data on the majority of articles will be adequate to enable Congress to determine rates as well as policy. A careful industrial survey such as the Tariff Commission is making in its Tariff Information Catalog<sup>23</sup>—including a general description of the article, amount and locality of its production, imports and exports, processes, uses, and other data readily obtained—will in the case of hundreds of tariff items dispose of the question of the tariff. Such an encyclopedic survey is highly important and will contribute decisively to scientific tariff making. But there are a number of highly contentious industries which require a more detailed study to determine their competitive strength. It is in these that the elaborate investigations of costs and prices may be made with profit.

The relation of the tariff to labor standards has been hinted at but the reference should be amplified here. Three attitudes assumed by nations toward labor are distinguishable. In the first place, labor may literally be “burnt up” in the industrial process. Where the labor supply is plentiful and docile, it may be paid low wages, worked long hours under unsanitary conditions, and when worn out, cast aside and a new supply recruited. In the second place, labor may be paid just enough to keep up its efficiency, on the same theory that

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<sup>23</sup> U. S. Tariff Commission's Second Annual Report, 1918.

## EQUALIZING CONDITIONS OF COMPETITION

a slave owner would keep his slaves in good condition, that is, that they may yield a maximum product. In the third place, labor may be given, or it may demand, not only "subsistence wages," but a surplus income and leisure hours which may be devoted to recreation and education. This third standard, of course, is the one to which this and every other country should aspire. An international agreement should be entered into that would tend to bring it about.<sup>24</sup>

In some industries the labor of the United States, although it receives higher wages per man than labor in foreign competing industries, produces at a cheaper unit cost because of natural advantages, more efficient machinery, and efficiency in operation. It is possible that in some industries expensive labor may be able to produce goods that undersell the products of low-paid labor. Great Britain is able to compete successfully in some products with Japan. Thus far the free trader is satisfied and he would go no further. But the advocate of protection believes that the national welfare requires the establishment of industries in which American labor cannot compete on an equality and maintain its standards. When the industry to be established is determined on and when its competitive disadvantage is measured, a tariff is put on foreign competing products in order to maintain American standards of living in *that* industry — and it does it.

The maintenance of the American standard of living in the great protected industries is, from a practical standpoint, a very important argument for the tariff. Whatever American society might have been under free trade, it is sure to remain well diversified for some time

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<sup>24</sup> Cf. Article XXIII of the Covenant of the League of Nations, Appendix IX.

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to come. Tariff making at this stage of our national existence is more a practical than a theoretical matter. We *have* the steel industry, the textile industries, and the sugar industry. We have many others. Even if we desired, they could not be eliminated without results detrimental not only to the capital and labor directly employed, but to the country as a whole. Competing with many of these industries are industries in foreign countries in which the standards of labor are low and in which the laborers, although less efficient than the American, are paid such a small sum that it would be hopeless to attempt to compete with them. This low-paid labor, as in India and Japan, has learned to operate efficiently the machinery of the high-wage countries. Congress is usually confronted with the alternative of permitting foreign competition to eliminate certain American industries or to maintain the American standard of living in them. By maintaining in the protected industries the American standards of living, the advocates of protection believe that they are not only preserving our social advancement, but also increasing the aggregate productive powers of the nation.

The effect of the tariff on the consumer has been frequently overstated. The advocate of protection simply takes the position that in a diversified society such as protection produces, the individual gains more as a producer than he loses as a consumer. It is only in exceptional cases that the prices of goods are raised by the full amount of the tariff duty. Competition among domestic producers helps to regulate prices. High as the rates were in the woolen schedule of the Payne-Aldrich Tariff Act, the manufacturers were never able to raise their prices to that extent. Furthermore, it

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does not always follow, as Mr. Emery has made clear,<sup>25</sup> that an increase in the tariff will result in an increase in the consumer's price. Through the peculiar method of distribution prevailing in the United States, a wide margin exists between the mill price and the price that the ultimate consumer pays. A tariff amounting to a few cents that equalizes competitive conditions is of great importance to the producer who is directly affected, but the increase reflected in the mill price may never reach the consumer but may be taken up by the jobber. The tariff question, after all, is not merely a concern of the consumer, the manufacturer, the laborer, or the locality; it is this, but it is more. It is a national question. Class and local interests may have to yield in order that more important interests may prevail.

If an excess-profits tax should become a permanent part of our Federal finance, there is an added reason for making it applicable to protected industries. These industries are maintained in the United States because they are believed to contribute to the national welfare and strength. Without the tariff, the high-cost (the marginal) factories could not exist, but their existence raises the price of the goods and increases the profits of the more efficient concern. On these profits the public has a peculiar claim, because the industry earning them does so by virtue of a policy of State aid.

From what has been said the function of the United States Tariff Commission<sup>26</sup> in tariff making should be clear. The determination of tariff policy is not within

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<sup>25</sup> H. C. Emery, "The Tariff and the Ultimate Consumer," *American Economic Review*, September, 1915. Cf. "Cotton Manufactures," H. R. Doc. No. 643, 62d Cong., 2d Sess., vol. ii, pp. 532-70.

<sup>26</sup> Appendix IV.

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its duty; this belongs to the people and to Congress. But if it is determined to levy a tariff, the Commission can furnish the data on which a tariff may be fixed. It can measure the difference in competitive conditions and place in the hands of Congress the data from which policy may be determined. It has ample powers to be of real and permanent service. It has full authority to call on any person or corporation in this country for information, and to conduct investigations abroad. It is authorized to investigate every phase of the tariff question — the administration of the customs laws, their fiscal and industrial effect, their effect on labor and on the consumer, and our tariff relations with foreign countries, including commercial treaties, "dumping," and general competitive conditions. Its duty is not to fix or to recommend tariff rates, but to collect and compile tariff information and upon request, to coöperate with the President, the Ways and Means Committee of the House of Representatives, and the Finance Committee of the Senate in determining the proper relation of the tariff to Federal finance and to American industry and commerce.

With the exception of the Tariff Board under the Taft Administration, there has never been in this country, until the creation of the present Tariff Commission, a permanent Government organization the primary duty of which was to collect tariff information in a scientific manner. In the past, when the political situation disclosed that a revision of the tariff was imminent, the political party in control of Congress began, some time in advance of the meeting of Congress, to gather information. This was done in two ways. In the first place, experts more or less qualified for the work were employed to compile statistics and gather information

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upon the various schedules. In the second place, the Congressional committees proceeded to hold hearings. It is true that these hearings in some cases brought out valuable and pertinent information, but in almost every instance the men who appeared before the committees to testify represented special interests seeking high duties for the protection of domestic industries or desirous of lessening duties in order to enable them to import goods readily from abroad. From its very nature the information submitted was prejudiced and incomplete, and the members of Congress could have little confidence in it. Too often in the history of American politics tariff rates have been fixed on the basis of such unreliable data. Without judiciously prepared information Congress has been confronted with the dilemma of either guessing at the rates or accepting those suggested by the interested parties — the only persons who could present their case concretely. Neither individuals nor parties are to be blamed for this. It was a system — adequate perhaps in the early days of the Republic, when our economic life was comparatively simple, but entirely inadequate in the complex industrial and commercial life of our own day.

One of the chief objects in establishing a Tariff Commission was to furnish to Congress a permanent Government organization that would be at all times a source of information upon every item and schedule in the tariff, an organization to which individual members of Congress could come for the facts, or upon which the committees of Congress could draw officially for data carefully compiled and arranged upon any tariff subject under consideration. It would seem to be self-evident that a permanent staff of experts, compiling up-to-date and properly arranged information upon tariff subjects,

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would be of inestimable value to Congress. A clear statement of facts often half solves difficult problems. No higher service can be rendered to Congress and to the people of the United States by the Tariff Commission than to bring out into the light the facts about the tariff. If this is done, Congress and the people will have less difficulty in determining what the rates should be.

If the establishment of the Tariff Commission means anything at all, it means that Congress intends to treat the tariff hereafter as a national matter. One of the real services that the Commission can perform is to assist Congress in eliminating from tariff making local and particularistic tendencies. Facts will be presented in their national setting, which of itself will enable members of Congress to consider the tariff in its broader aspects. A tariff that favors a special locality or industry at the expense of the rest of the country has in it the seeds of its own destruction. In the past, when the revision of the tariff has been under consideration, Congressmen have been harassed by requests from special interests for favored treatment. A member of Congress now may, if he likes, refer these requests to the Tariff Commission with the assurance that the facts will be verified and the interests of all considered in the report. In this and similar ways the Commission will assist Congress in taking out of politics those phases of the tariff that thrive on sectional and personal selfishness, and by so doing will leave to the members of Congress more time to consider those phases that can never be taken out of politics.



## CHAPTER VIII

### ANTI-DUMPING LEGISLATION

What dumping is not—Competition with cheap foreign goods—Undervaluation—Specific *vs. ad valorem* duties—Counter-vailing duties—Types of dumping—Sporadic selling abroad below price at home—Dumping as a permanent policy—Dumping as predatory price cutting—Effect of dumping on American industries—Post-war possibilities—Canadian dumping law—Australian method of handling unfair competition—American dumping legislation of 1916—Proposed revisions.

A tariff that equalizes the normal permanent differences in competitive conditions between this country and foreign countries should be supplemented by legislation that will prevent foreign interests from defeating the intent of Congress in enacting the tariff law. Failure to recognize this fact tends to encourage the agitation for a prohibitive tariff. In addition to a tariff law that will place our industries on an equality with their foreign competitors, we need trade defenses that will keep them there.

“Dumping” is a term which is heard frequently and which is used very loosely by business men. The great majority of cases described as dumping are merely cases of severe competition of cheap foreign goods. Foreign manufacturers may not be guilty of dumping even though they are selling their products in the United States at prices that make it impossible for American competitors to remain in business. Their costs may be so low that they can continue to undersell the American manufacturer and make a profit. We get nowhere by

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calling this condition "dumping." It may require a remedy, but the remedy is a higher tariff, not anti-dumping legislation. The persistent selling in the American market of those foreign goods which it is desired to protect at a price below the cost of American manufacture is precisely the sort of condition that a tariff law should be devised to correct.

There is another objectionable trade practice which is not dumping, although it is often confused with it. This practice is undervaluation. In the American tariff law *ad valorem* duties are assessed on the foreign value of the goods. The lower the value, the less duty need be paid; the higher the value, the more protection the American manufacturer gets. Disputes are not infrequent between Government appraisers and importers. In spite of the machinery devised for determining foreign values, undervaluing of goods is not uncommon. It may be unintentional, or it may be carried out by an elaborate system of false invoices and entries. Here again a remedy is necessary, but not anti-dumping legislation.

The tendency in modern tariff making is to abandon, wherever possible, *ad valorem* duties and adopt specific duties, that is, duties on units of quantity, so much per pound, so much per gallon, and so forth. Many rates in the American tariff, now *ad valorem*, should be specific. Not only do *ad valorem* rates make undervaluation possible, but they afford American producers the least protection when they most need it. When the price of a particular commodity, for example, steel, rises abroad, the effective amount of protection given by *ad valorem* duties is relatively higher, but it is then that it is least needed by the American industries affected. On the other hand, when prices of particular com-

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modities fall abroad, and it is profitable for importers to buy them for sale in the United States, a percentage duty on low foreign values affords relatively less protection. In other words, *ad valorem* duties vary in amount inversely with the needs. Specific duties need no change if relative conditions do not change. *Ad valorem* duties need change when anything changes.

Specific duties, however, require very careful, and in some cases, detailed classification of goods in the tariff act. Prohibitive duties may be concealed in specific duties, as they were in the old so-called compensatory duties in the Payne-Aldrich woolen tariff. *Ad valorem* duties may be resorted to because of a lack of knowledge in tariff making, for they automatically adjust themselves to variations in price. If a tariff law does not have a scientific classification of articles, *ad valorem* duties had better be used. But the aim of tariff making should be a scientific classification of all products and the use of specific duties wherever possible. Specific duties are easy and inexpensive of collection and are desirable on this account also. The weighing or measuring of products is much simpler than determining their value.

Specific duties are not always possible. The earthen and chinaware tariff, for example, does not seem to be adapted to specific duties. Values vary so widely that a duty on the weight or size would result in injustice. But in this line of goods undervaluation has been particularly flagrant. The way out of this and similar dilemmas seems to be the adoption of what is known as a system of fixed valuations. Such a system consists of a list of established values on every class and grade of goods which are used for a stated period as the basis for assessing *ad valorem* rates regardless of the foreign

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market price. It is *ad valorem* in form but specific in effect. The successful working of such a system requires a frequent revision of the values in the list. For a number of years the Treasury Department followed such a plan in administering the pottery schedule of the tariff, but it was finally overruled.

Even were specific duties and fixed valuations adopted generally, some cases would remain that could only be reached by *ad valorem* duties. For example, the so-called "catch-all" or "blanket" clauses of the tariff act will necessarily contain *ad valorem* rates. The laws of the United States now provide that duties shall be levied on the value of goods in the principal foreign market.<sup>1</sup> This method, supported by effective machinery for detecting undervaluation, is probably the most satisfactory way of handling a tariff based on values.

Still another practice, objectionable and requiring a remedy, should be distinguished from the practice known as dumping, although as a matter of fact it is a form of dumping. In some countries export bounties or similar aids in the nature of subsidies are granted to exporters. The result is to nullify the tariff of this country *pro tanto*. Countervailing duties is the name usually given to the duties this country has employed to defend itself against such an effort to evade its laws. The American Tariff Act of October 3, 1913, provides that when "any country, dependency, colony, province, or other political subdivision of government" shall grant any bounty on the exportation of any article and that article is imported into the United States, it shall be subjected to an additional duty equal to the net amount of the bounty. A general clause providing for counter-

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<sup>1</sup> Act of October 3, 1913, Section III, paragraphs K, L, and R.

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vailing duties is now an accepted part of our tariff laws. Some important questions, however, are still unsettled with reference to them. Our present law provides only for countervailing duties in case the bounty or grant is made by a governmental organization. The most insidious and undesirable preferential treatment accorded to exporters is sometimes established by organizations that are either controlled solely by commercial interests or are used as a cloak for Government activities. These private concerns, private in form or in fact, at times grant bounties and subsidies to their members in exporting to foreign countries, or preferential railroad or steamship rates are given. So far as the effect is concerned, it makes no difference to this country whether bounties or other forms of preferential treatment are granted by a foreign Government or private organization. Countervailing duties should be extended to include bounties granted by private cartels or associations, preferential railroad and steamship rates, and any other form of grant that tends to nullify the object Congress had in mind when it enacted our tariff duties.

Three aspects of dumping must be distinguished before this practice can be understood and before adequate anti-dumping legislation can be devised. Dumping may be:

- (1) A temporary and sporadic selling abroad below the domestic price of a surplus that cannot be disposed of at a profitable price at home. It is the principle of the "bargain counter" applied to international trade.

- (2) A constant deliberate selling abroad below the domestic price of a portion of a factory's output, since by operating full time foreign producers

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can reduce the average cost and increase the total profits. Monopoly frequently results in this practice.

(3) A method of predatory price cutting intended to destroy a foreign industry, to eliminate a competitor, or to prevent the development of competition in the import market.

Dumping in the first sense is a vague name for a very familiar practice. It is as old as commerce. It consists of selling goods for whatever they will bring, usually at or below cost. This practice is well known to one who from curiosity or seeking of profit frequents city markets on Saturday night. As evening comes on, vendors of fruit and vegetables find that they have supplies on hand that will not be purchased at the price they have been asking all day. Rather than be left with these goods on their hands to spoil, they will sell them for any price that is offered, regardless of cost. In other words, they dump. Rapid changes in fashion result in the practice of dumping in businesses that handle women's wearing apparel. Suits and hats still on hand at the end of a season are sold at sacrifice prices. Merchants put on "summer sales" and stock-renewal sales and start "bargain" counters in order to get rid of goods that, although useful and in good condition, have gone out of style.

The term dumping is not applied to these practices in domestic trade. But when the same method is pursued in foreign trade, it is called dumping. When a manufacturer has on hand a surplus of goods that he cannot sell to his usual customers at a price that will yield a reasonable profit, he may cut prices in his main market, or he may refrain from demoralizing the home market and ship his surplus elsewhere, usually abroad,

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and sell it there for what it will bring. It may yield a small profit; it may be sold at or below cost.

Whether or not dumping is undesirable for the country receiving the goods depends upon circumstances. Countries that have no manufactures to consider welcome dumping. The cheaper the goods they receive, the better for the consumer, and there are no domestic interests to be adversely affected by price cutting. Although a great manufacturing nation, Great Britain permitted goods to be dumped on her shores. Anti-dumping legislation was for a time regarded as inconsistent with her free-trade traditions.<sup>2</sup> The war, however, has crystallized the sentiment against dumping, and Great Britain will no doubt follow the recommendations of the Board of Trade<sup>3</sup> and enact a defensive measure that will protect her industries from dumping.

Dumping legislation, it must always be kept in mind, raises a question of national expediency. The attitude of a nation toward the practice is a matter of policy. Producers have a right to seek whatever market they choose for their goods. If an American manufacturer sells his goods abroad at a reduced price in order to meet competition, or in order to get rid of a surplus, no objection should be raised on the part of this country. Dumping in the sense of merely getting rid of a surplus is not immoral any more than is the offering of bargains in the domestic market. British manufacturers, who have claimed that their country is the "dumping ground of the world," have practiced dumping extensively. American manufacturers also dump abroad. The question confronting the manufacturer is to find a country

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<sup>2</sup> In the Brussels Sugar Convention Great Britain united with other nations to stop dumping of bounty-fed sugar. See Chapter XII.

<sup>3</sup> British Blue Book, Cd. 9035 (1918), p. 44.

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willing to be dumped upon, and some countries welcome it because it brings them cheap goods and they have no industrial fabric to maintain. The question that confronts each country is whether or not it can afford to be a dumping ground.

Industry is now organized on a vast scale. It is not always possible to judge what quantity of a given line of goods the market will take at a price that will yield a profit, and even when the state of the market can be determined, it is not always possible for manufacturers to curtail production immediately. Under the present organization of industry there is always the danger of over-production of goods beyond the point at which they can be disposed of profitably. The Dutch East India Company is said to have pursued the unjustifiable practice of destroying parts of its produce rather than shipping it to Europe where it would break the market. In this case the monopolistic feature was prominent. The condition created by over-production is met by manufacturers, as a rule, not by destruction, but by dumping. Selling goods abroad at whatever they will bring is resorted to from time to time by manufacturers to get rid of surpluses that have unavoidably remained on their hands. It relieves a temporary situation produced by the exigencies of large-scale production or, it may be, by industrial and financial depression.

Thus far we have considered dumping chiefly as a temporary measure for getting rid of a surplus of goods that accumulated unintentionally. The second form of dumping, however, is not merely objectionable when practiced by foreigners in American markets, but should probably not be encouraged among our own manufac-



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turers. Dumping, that is, selling abroad for a price less than at home, may be adopted by an industry as a permanent policy. Looking at the matter purely from the standpoint of industry, a very plausible argument can be made in justification of it. Dumping, it is said, may be justified by the needs of fixed capital in large-scale production. In industries that have a large amount of capital invested in buildings and machinery, it is very desirable to keep running, and if possible to keep running full time, which is not always possible because of variations in domestic demand. Some manufacturers would be willing to run their plants at a certain immediate loss for a period of time rather than allow their labor force to scatter and the plants to stand idle. The cost of manufactured goods includes (1) the so-called fixed charges, such as interest on investment, depreciation of property, taxes, and salaries, and (2) the cost of materials and wages. The fixed charges must be met whether the mill is running or standing idle, whether it is running full or part time. If a manufacturer sells a part of his output in the home market at a price that covers the fixed charges of his mill and the cost of material and labor used in producing the product sold in the home market, he can then afford to sell his surplus in another market at a price that covers, with a small profit, the added cost of materials and labor.

It is a commonplace that practically all cost data run in terms of average cost for the fiscal period. The "law of increasing returns," to use an expression of the professional economist, is not reflected in cost figures except in the averages for the period. One year when the output is, say, 1,000 items, the (average) costs may be \$100 per unit, whereas the following year when the output is 2,000 items, the (average) cost may be

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\$75 per unit. Under such conditions the accounting department would insist that the firm is losing money whenever sales are made below \$100 or \$75 as the case may be. On the other hand, the sales manager may argue with equal vehemence that total profits may be increased by selling a portion of the supply at less than average cost so long as such portion bears some part of the overhead burden. This latter argument is, of course, the old justification of "dumping" stated in accounting terms. It becomes, therefore, of paramount importance in tariff administration to determine whether competing articles are priced on the basis of average cost or on the basis of additional cost, that is, cost of direct labor and material plus a portion of overhead.

A firm must sell in its principal market on the basis of average cost in the long run, whereas it may sell advantageously in a secondary market a part of its product at less than average cost. The principal market may be at home and the secondary market abroad, or one foreign market be primary, for example, the United States, and another, Canada, secondary. The primary market is where the producer has his selling organization, and rather than demoralize the market, he will sell elsewhere any surplus he may find it desirable to produce. Industries that produce for export must sell in their principal foreign market on average costs rather than on dumping costs.

The manufacturing establishment depending primarily upon the domestic market but exporting large amounts of goods may suddenly suffer under foreign competition. If the exports are based upon the theory of "dumping," the premises necessarily are that domestic prices are higher and, therefore, offer an inviting field for competition from abroad in the very commodities exported.

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As soon as a competing product begins to be imported, the foundation of the export trade, *viz.*, a large domestic market, is cut away, and the whole industry (through the collapse of individual concerns, of course) may be injured or destroyed. The same situation might come upon an industry depending primarily upon one foreign market and dumping in another. Hence under a "dumping" price policy large exports are not an indication of ability to meet foreign competition in the domestic market. On the other hand, if prices are based on average cost, the presumptions run the other way. If for example, the export industries of Great Britain can sell abroad in face of competition, it is safe to assume that likewise they can protect their domestic market without a tariff. All this, of course, is familiar doctrine to the economist, but it is well to reiterate it here to emphasize the enormous complexity of the problem of tariff and anti-dumping legislation.

Under a permanent dumping policy the surplus shipped abroad is regarded as a by-product, and like other by-products it has no definite cost price but is sold for whatever it will bring. As in the case of other by-products, however, it may be a real source of income and profit for the industry as a whole. When there is a deliberate intention to dump, the manufacturer, instead of restricting his output to meet domestic needs only, fixes a price for the home trade that yields a profit and sells all that the market will take at that price; he then exports the remainder of his production and sells it for what it will bring.

Dumping, in the third place, may take the form of unfair price cutting for the purpose of putting a competitor out of business in a neutral market or for the

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purpose of destroying or preventing the rise of a foreign competing industry. Such practices are unjustifiable, and international as well as national action should be taken to stop them.<sup>4</sup>

Superficially it may seem poor logic to argue against the importation of cheap goods. Why, it may be asked, should we in this country object if foreigners are willing to sell us their goods at or below cost? Why should we not allow them to increase our national wealth at the expense of their own? If this were all there were to the question, it would probably not be necessary to discuss it further. Naturally cheap goods, other things being equal, are desirable. But are dumped goods actually, and in the long run, cheap goods? If we could be sure that the industries of foreign nations would furnish us without interruption with a certain supply of goods at less than cost, it might be well for us to consider a change in our national policy. If we could be certain that we should always receive dumped goods, dumping might be a blessing. But dumping in fact brings cheap goods only intermittently. Even when some industries abroad have adopted a permanent policy of dumping, their surplus, from the very nature of the case, could not supply the whole of our market, nor could we feel certain that even this condition of dumping would last. The advantages of dumping even to the consumer are doubtful. The consumer may profit temporarily. When the Greeks come bearing gifts, however, they are most to be feared. *Timeo Danaos et dona ferentes*. The inevitable result of dumping is to destroy the industry producing goods similar to those dumped. It can continue in the market only if it meets the price at which the dumped goods

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<sup>4</sup> See Chapter XII.

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are sold, whereas the foreign rival is selling the bulk of his goods at a profitable margin. Only one result can come from this unequal competition. As soon as the American competition is removed, the foreign producer may particularly in case of foreign monopoly raise the price. He will, in fact, have to do so, since he cannot afford to supply our entire needs at the price of the dumped goods. He will then control the market and the consumer will pay what is asked. The consumer, it should not be forgotten, has a real interest in the maintenance of the industries of this country in vigor and strength.

Any temporary cheapness of goods to the consumer that results when foreign manufacturers dump their goods on our market in no way compensates for the shock that dumping gives to American industry. It is only justice to our industries that we protect them from unfair methods in competition from abroad. We do not permit these methods among our own manufacturers.\* There is a better reason for forbidding them in the case of imported goods. During the war new industries have grown up in the United States to supply goods formerly imported from Europe. While the war lasted, these young industries were protected, but when their European competitors begin again to produce for export, measures of self-defense will be necessary. Not only will some of the industries abroad, because of their longer experience, be in a stronger position for competition, but all will be willing to make temporary sacrifices if thereby they can crush their young competitors in America and regain full control of our market. Dumping in its worst form may be adopted by the foreign

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\* Sherman Anti-Trust Act and Federal Trade Commission Act; see Chapter XII.

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producer to win back what he has lost by the war. Our industries must be protected from such unfair methods. European nations will soon make supreme efforts all along the line to regain their industrial prestige. They may do it by industrial combinations, bounties, and tariff duties, and by the practice that usually accompanies these—dumping. It will be the policy of European nations to keep their industries running full time in order to make up for the frightful waste of war, and whatever surplus their home markets do not absorb, they will throw upon foreign markets.

Under these conditions a more or less permanent policy of dumping will become profitable, both because it will enable the foreign producer to run his mills full time and give him a profit on his surplus shipped abroad, and because it will also assist him in regaining his foreign markets. Great quantities of goods will no doubt be produced that the foreign consumer, impoverished by the war, will not be able to purchase. These bankrupt goods will be shipped abroad, and our market, if unprotected, will be a favorite dumping place.

Dumping legislation in force in other countries falls naturally into two classes: (1) legislation increasing tariff rates to be charged on dumped goods; (2) legislation defining dumping as an unfair method in competition and forbidding it.

The Canadian law is the most familiar and the pioneer example of tariff legislation directed against dumping. It was copied by the Union of South Africa. It was also the basis of the dumping clause incorporated by the House of Representatives in the Tariff Act of October 3, 1913, but rejected by the Senate.\* The Canadian

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\* *Congressional Record*, 63d Cong., 1st Sess., vol. 50, pt. 6, p. 5323.

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law provides <sup>7</sup> that in case of articles exported to Canada of a kind made or produced in Canada, if the export or actual selling price to an importer in Canada be less than the fair market value of the same article when sold for consumption in the country whence exported, there shall, in addition to the duties otherwise charged, be charged, collected, and paid a special or dumping duty not to exceed 15 per centum. This special or dumping duty applies to the free as well as the dutiable list. The possibility of evasion, as, for example, by consignment without sale, is provided against by giving the Governor-General in Council power to deal with such a situation.

The Industries Preservation Act of 1906 of the Commonwealth of Australia deals with dumping as an unfair method in competition. Unfair competition in the law has, in all cases, reference to competition with those Australian industries the preservation of which, in the opinion of the Comptroller-General of Customs or a Justice of the High Court, is advantageous to the Commonwealth of Australia, having due regard to the interests of producers, workers, and consumers. Competition is deemed to be unfair, unless the contrary is proved, if in ordinary circumstances of trade it would probably lead to the Australian goods being no longer produced, or being withdrawn from the market, or being sold at a loss unless produced at an inadequate remuneration for labor; or if the means adopted by the importer are unfair in the circumstances; or if the competition would probably or does in fact result in an inadequate remuneration for labor in the Australian industry; or if the competition would probably or does in fact result in creating a substantial disorganization of Australian industry or

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<sup>7</sup> For full quotation see Appendix VII.

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throwing workers out of employment; or if the imported goods are purchased abroad in any manner whatever at prices greatly below their ordinary cost of production where produced or the market price where purchased; or if imported goods are sold in Australia at a price that is less than gives the importer a fair price upon their fair foreign market value of production together with all charges. The law provides further that these cases of unfair competition shall be heard before a court and if the law is violated, the importation of goods may be prohibited either absolutely or subject to any specified conditions or restrictions or limitations.

Dumping legislation was enacted by the Congress of the United States on September 8, 1916. The immediate occasion for passing this Act<sup>\*</sup> was the unfair methods of competition which the German coal-tar dye industry had used in maintaining its international supremacy. By this law it is a criminal act for any person importing goods into the United States to sell them within the United States

at a price substantially less than the actual market value or wholesale price of such articles at the time of exportation to the United States in the principal markets of the country of their production, or of other foreign countries to which they are commonly exported, after adding to such market value or wholesale price, freight, duty, and other charges and expenses necessarily incident to the importation and sale thereof in the United States: *Provided*, That such act or acts be done with the intent of destroying or injuring an industry in the United States, or of preventing the establishment of an industry in the United States, or of restraining or monopolizing any part of trade and commerce in such articles in the United States.

In addition to this prohibition of unfair price cutting,

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<sup>\*</sup> Quoted in Appendix VII.



## ANTI-DUMPING LEGISLATION

the law makes provision against the practice known as "full-line forcing." Articles will be assessed with a double duty that are imported into this country under an agreement that any person shall not use, purchase, or deal in, or shall be restricted in his using, purchasing, or dealing in, the articles of any other person. If, for example, the German dye industry controls by patent a color needed in this country, it cannot use the necessity of the American consumer as a means of forcing him to purchase his full line of dyes from abroad when all the colors except the one controlled by the patent can be purchased in this country.

When we come to consider anti-dumping legislation, the importance of the three kinds of dumping already discussed is obvious. It will be recalled that these include: (1) the sporadic selling of goods in order to relieve a surplus, that is, the offering of bargain sales in international trade; (2) a permanent policy of foreign industries of selling in this country a portion of their output at a price below their domestic price in order to keep their factories running full time; and (3) unfair price cutting, the object of which is to injure, destroy, or prevent the establishment of an American industry.

The American legislation of 1916 was directed only against the third type of dumping. It made no provision for preventing the injury to American industries by the first two. Obviously it makes little difference whether American industry is injured or destroyed by the deliberate, intentional acts of a foreign producer, or whether it comes about inadvertently. The intent of the foreigner is of secondary importance so far as national policy is concerned. The result is the thing that is to be prevented.

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The Canadian method of stopping dumping has proved effective in practice. Elaborate forms, regulations, and procedure have been devised which have demonstrated beyond all question that the Canadian method is a practicable way of handling the dumping problem. This method is comparatively simple and might be found serviceable in this country, but it is inflexible and in effect results in an increase of the tariff. By tending to raise prices it bears heavily on the consumer. Purchasing abroad at bargain prices does not always injure American industry.

The American legislation of 1916 is, as a matter of fact, the basis of a more satisfactory solution of the dumping problem. This law, however, should be modified both in substance and procedure. It should be extended to include all forms of dumping the result of which is to injure or destroy American industries. It should cover not only those intentional, unfair acts of foreign competitors directed against American industries, but it should include also all selling in the United States at prices below those that prevail generally abroad, or that are below the cost of manufacture abroad.

The criminal provisions of the law may be retained, but there are objectionable cases of dumping which cannot be proved under the strict procedure of criminal law. Then, too, it is not always possible to bring the offending party before our courts since he may be in another country. The criminal provisions of the law should be supplemented by authorizing the President to levy by proclamation additional duties on or to prohibit the importation of goods that are being systematically dumped into the United States, in case he has reason to believe that the result will be to injure, destroy, or prevent the establishment of an American industry. The United

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States Tariff Commission, already authorized to investigate dumping,<sup>9</sup> should be designated to hear and consider complaints of dumping and to report its findings to the President for his consideration and action. A dumping law containing these provisions would be more flexible than the Canadian method; it could be adapted in its administration to meet effectively every objectionable case of dumping. This power to prevent dumping by executive order at the discretion of the President, together with the power of the Federal Trade Commission to prevent all unfair methods of competition used by persons who can be reached by its legal processes,<sup>10</sup> should provide sufficient security for American industry and prevent effectively all unfair attacks upon it.

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<sup>9</sup> Act creating the United States Tariff Commission, Sec. 704; see Appendix IV.

<sup>10</sup> See Appendix X.

## CHAPTER IX

### EXPORT TRADE AND ITS PROMOTION

Nature of international trade—Necessity and desirability of export business—Export methods in foreign countries before the war—Great Britain—Germany—Post-war plans for promoting trade—Great Britain—France—Germany—Japan—Canada—Growth of American export trade during the war—In quantity, destination, and variety—Coöperative associations to promote American export trade—Export Associations Act—Objections to export associations—Activities of non-governmental bodies in promoting export trade—Promotion of export trade by the United States Government—Free ports—As there are ways in which export trade should not be promoted, there are also ways in which it should be.

International trade, in the last analysis, is nothing but barter. Through the ordinary course of exchange the goods and services we receive from foreign nations must, in the long run, be paid for in goods and services furnished by America. Articles such as coffee, rubber, cocoa, jute, and tin must be obtained entirely from foreign countries, and many other articles, such as wool, hides, sugar, tropical fruits, and the like are imported extensively. There are also many manufactured articles that the American people have found it profitable to purchase from European countries. Without the importation of many commodities and articles the normal progress of our industries would be arrested, and the variety of articles available for domestic consumption would be seriously curtailed. Necessity, therefore, compels America to export sufficient commodities, either foodstuffs, raw materials, or manufactured articles, to pay for the goods and services furnished by foreign peoples.

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In addition to the argument from necessity, there are other reasons why a steady export trade is desirable for the United States. For one thing it increases the stability of American industry. The wider the extent of the market, the greater the probable stability of the industry. If 10 or 15 per cent. of a manufacturer's business consists of exports to foreign countries, he may find it in times of depression at home a source of relief which enables him to continue running his factory. This will benefit not merely the manufacturer, but also his employees and the community that depends upon the industry in question for a part of its prosperity. Foreign trade also is particularly desirable in those industries that are subject to seasonable demands. If an industry has a market in a foreign country, as, for example, the American cement industry has a market in Argentina, it will benefit by the fact that the building season there opens at about the time that the season closes in the United States. A plant with a market in Argentina, therefore, will be able to maintain a steady production throughout the year, but if it relies upon the demands of our domestic market alone, inevitably there will be a period of the year when production must be seriously curtailed.

It is sometimes forgotten that American export trade may be of great value to foreign peoples. Men whose intentions are good but whose knowledge of the economic conditions of the world is slight frequently talk as if they thought foreign trade undesirable. Properly conducted, however, it not only increases prosperity in this country, but it increases prosperity in the importing countries. Through foreign trade a country gets the commodities that it cannot produce advantageously itself in return for its exports to the

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United States of commodities that it can produce to greater advantage; the gain is mutual, although not always equal. Nations that are backward economically, or nations that have been seriously devastated by the war, must have machinery and building materials to carry forward the work of civilization. Business men, it is true, do not usually approach their tasks in an altruistic spirit, but it does not follow from this that they are exploiters. The mutual exchange of goods between nations is a highly desirable and important factor in the development of society. Although we should condemn improper methods of promoting export trade, the problem should be approached affirmatively and the value of a substantial export business recognized. There are ways in which a nation should promote export trade. In the United States men are coming to the front as leaders in our export business who have a grasp of the details of foreign trading, an understanding of foreign exchanges, banking, transportation, and competition, and a statesmanlike vision of the possibilities of our overseas trade and its relation to the peaceful, progressive development of the world. They look upon foreign trade as reciprocal — of benefit both to foreign countries and to our own. Their ships that carry American goods to China and South America return laden with foreign wares, and these ships bring us more than goods. They bring us ideas of foreign peoples — of their customs, literature, government, and social life. They break down the prejudices of that part of our life that is narrow and provincial; they broaden our sympathies; they help us to see our true place in a family of nations.

American manufacturers interested in exporting are entitled to organize their business in such a way as to

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enable them to compete on an equality with other large exporting nations. Before the war coöperation was common among the financial, transportation, and producing interests of certain foreign countries, particularly Germany. Export trade was at times a national rather than an individual affair. Business men frequently settled their differences among themselves and moved into foreign markets unitedly. The close bond which existed prior to the war between the producing, financing, and transportation interests of Germany, and to some extent those of Great Britain, made those countries powerful in selling their goods abroad.

Great Britain's strength in foreign trade came from several sources. She was first in the field and established many valuable and important connections. Her merchant marine has been at all times one of the important media in developing foreign markets. The Marine Department of the Board of Trade is the Government body that deals directly with shipping interests. The British have established excellent liner connections with Canada and the United States, South America, the Orient, Australasia, Africa, and Europe, and in addition there are thousands of British tramps and freighters which traffic in and out of every harbor in the world. The extensive organization of Lloyds has made it a leading factor in the commercial life of England and the dominant element in international marine insurance.

Originally British manufacturers received a large part of their orders through their banking connections. The financial organization of Great Britain in international trade is the most comprehensive in the world. It affords to exporters and importers credit facilities in all parts of the world, and merchants in the most remote regions have found these banking connections of invaluable as-

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sistance to them in furthering British trade. One of the important items in developing foreign trade is the ability of a country to extend credit. Foreign transactions are time-consuming, and trade credits of six, nine, and 12 months are not uncommon. The British banks have special facilities for handling these credit risks, and have thereby been of valuable assistance to the British business men.

The unification of Germany in 1871 gave a tremendous impetus to her industrial activities. Her leaders turned their attention in particular to foreign trade. In a systematic way they took steps to develop it. The central ideas underlying their methods were coöperation and efficiency in selling, together with scientific production. They developed a merchant marine, established foreign banks, and made foreign investments. Their real triumph, however, came in coördinating the various financial, transportation, and industrial interests of the country into effective selling machines. The "cartel" (which is a combination to control the market) became the dominant form of industrial organization. Cartels were organized in practically every industry, and the syndicate or selling cartel became the chief medium through which German goods were marketed, both at home and abroad. In addition, large associations of business men were formed. Chief among these were the Central Association of German Manufacturers, the *Bund der Industriellen*, and the *Hansa-Bund*. Associations, cartels, and special export selling agencies were developed among the allied and competing German manufacturers. Organized buying was also perfected. The steel syndicate in Germany, for example, was one of the most successful coöperative organizations. It was organized in 1904 and practically monopolized the production and



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distribution of semi-manufactured steel products. It included 31 companies. Each member of the combination had a quota allotted to him, based on the amount of crude steel originally allotted to him by the agreement. The syndicate established an extremely low selling cost. By a uniform system of cost accounting and standardization of products, as well as by model business management in general, unnecessary waste was virtually eliminated in production and distribution. About this syndicate were grouped a number of allied combinations, cartels in other industries and commercial houses in foreign countries. It is generally conceded that the steel syndicate was one of the most important factors in German export trade before the war. Its export business was handled exclusively by a common export agency at Düsseldorf, which was considered one of the most efficiently organized of all cartel export agencies. It fixed prices, allotted orders to the different plants (with due consideration of their geographical location, special adaptability to certain lines, and other factors), and systematically promoted and regulated the whole export business.

One of the basic economic effects of the war about which we may speak with some confidence is that it has increased industrial coöperation. The nations are not going back into the antiquated and outworn methods of individualized industry and marketing which before the war they—some more, some less—were discarding. European countries were planning while the military struggle was still on to further their economic interests. Governments were actively interested in these plans. In so far as they are based on principles of equality and fair competition, in so far as they are

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directed toward increasing efficiency in merchandising, they are commendable. In so far as they are based on a policy of discrimination and exclusiveness, they are objectionable.<sup>1</sup> A brief reference will be made to some of these post-war plans of other nations.

The British Government has reorganized the Board of Trade and established a Department of Overseas Trade (Development and Intelligence) which is connected not only with the Board of Trade but also with the Foreign Office. Under its supervision fall the trade commissioners and the commercial attachés. The British consuls, while still a part of the Foreign Office, are put into coöperation with the Department of Overseas Trade. The object of the consolidation is, of course, a more vigorous and intelligent promotion by the Government of British foreign trade. A second important innovation in Great Britain was the establishment of the Ministry of Reconstruction whose work it is to co-ordinate all activities of Government departments that relate to reconstruction. Its branch dealing with commerce and production is considering, among other important subjects, the supply and control of raw materials, the financing of British after-war trade, the probable extent and nature of the demand for British products, and improvements in trade organizations to promote more economical production and distribution.

As in other belligerent countries, there has been a marked coöperative tendency in British trade and industry. During the war the Board of Trade encouraged such tendencies, and its committees have recommended some sort of amalgamation for export business in the iron and steel, textile, electrical, and other industries.

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<sup>1</sup> For example, the resolutions of the Paris Economic Conference, Appendix II.

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In British banking also there has been a pronounced movement toward concentration, stimulated by the desire to finance adequately the restoration of British industry and trade to their pre-war position and to strengthen London as a financial center. The alternative to the amalgamation of private banks seems to be a Government bank. The financial problem is thus referred to by Sir Edward Holden, President of the London City and Midland Bank:

In our country we shall be faced with the proposition of a Government bank being established or of relying exclusively on the large joint-stock banks to carry through after-war operations. It seems to me that, if the joint-stock bankers will take a broad view of this question by making liberal advances to those firms which are managed with ability and honesty and which produce good balance sheets, we might be able to carry our industries through the difficult times without the establishment of any Government institution. But we must not overlook the fact that the balance sheets of firms and companies and their profit-and-loss accounts will have to be carefully examined in the future, because there will be a great danger that a fall in the price of commodities may lead to the profit-and-loss accounts being in debit instead of in credit. In many of these cases excess-profits duty will have been paid on profits that were really due to high prices, and proper consideration should be given to them if prices fall and profit-and-loss accounts begin to show debit.

One of the best known war publications of the British Government was the final Report of the Committee on Commercial and Industrial Policy after the War.<sup>2</sup> It discussed the position of British trade and industry in 1913; the manner in which Imperial resources might be further developed and the supplies of important raw materials assured; essential industries; the treatment of

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<sup>2</sup> British Blue Book, Cd. 9035 (1918).

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aliens, including enemy subjects, in respect of certain commercial and industrial occupations in Great Britain; the internal reorganization of industry and the assistance that may be rendered by the Government in promoting it; the question of financial facilities for trade, and the bearing of taxation upon industrial development; the general policy that should be adopted by the State in regard to the manufacturing and commercial interests of the British Empire, with special reference to the future safety of the Empire; the prevention of "dumping;" the safe-guarding of important staple industries; the tariff; position of export trade; imperial preference, and commercial treaties; and the proposals for the adoption of the metric system of weights and measures and the introduction of a decimal coinage.

In France the rehabilitation of foreign trade will doubtless be subordinated to the more urgent necessity of reëstablishing the industrial life of the devastated parts of the northern provinces. France's chief export trade, however, important as it is, is concerned with products in which comparatively little foreign competition is encountered. French style and quality create for French goods a more or less separate market. The exporters of Great Britain, Germany, Japan, and the United States, on the other hand, are frequently seeking markets for highly competitive articles in the sale of which price, credit terms, and methods of distribution are apt to be of more importance than reputation, design, and trade goodwill. Coöperative effort in selling, therefore, is likely to develop further in these countries than in France.

One of the most significant features of German war-time economic development as it may affect after-war foreign trade is the voluntary and in some cases the

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compulsory syndication of a number of important industries. The result has been to concentrate business in the most productive mills. This amalgamation has been particularly drastic in the shoe industry and in the various branches of the textile industry. The after-war trade plans formulated by the *Reichswirtschaftsamt*, the separate Ministry created to deal with economic policies, and other German organizations of this nature have naturally been profoundly influenced by the complete military capitulation and the change in form of government. Some of these after-war projects were of a grandiose character, being predicated upon the fulfillment of the *Mittel Europa* dream of economic and political hegemony from Berlin to Bagdad, upon German colonial possessions, and upon a large German merchant marine. Whatever may be the measures taken by the new German State to regain foreign markets, it is reasonable to assume that the traditional German coöperative tendencies in trade and industry will persist.

The spectacular growth of Japanese export trade during the war has already been commented upon.<sup>a</sup> The Japanese Government and private organizations are considering how this trade may be retained and extended. The city of Yokohama has established a foreign-trade bureau with extensive plans for a great commercial museum and for comprehensive trade promotion. Exhibits in promising export markets are planned. The Japanese are aware of the difficulties they will have in retaining the trade gains they made while European competitors were applying their economic energies to defeating Germany. Except in a few specialized articles, such as habutai silks, Japan's success is dependent upon ability to quote very low prices.

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<sup>a</sup> See Chapter VI.

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The Canadian Government has for some time shown an intelligent interest in the promotion of foreign trade. A Trade Commission has been established to consider trade problems, particularly with reference to exports. Trade investigators, similar to our own, have been sent to promising foreign markets.

The growth of American export trade during the war was phenomenal. The following figures give some idea of the growth, although it must be remembered that the rise in prices makes the increase in value relatively greater than the increase in quantity:

EXPORTS FROM THE UNITED STATES, 1913-18\*

	1913	1916	1918
Raw materials (except foodstuffs)	\$731,758,513	\$535,952,043	\$897,328,794
Food products (crude and manufactured)	503,111,639	979,697,253	1,528,989,991
Semi-manufactured products (except foodstuffs)	408,806,949	657,923,305	1,203,916,333
Manufactured goods (except foodstuffs)	776,297,360	1,998,298,249	2,191,137,089

\* During the war the shipments of goods in Army and Navy transports were not recorded in export statistics. Great quantities of goods were thus sent to Europe.

In addition to the increase in volume, there has been an interesting and significant change in the variety and destination of American exports. Soon after the outbreak of the war in 1914 the embargoes of the belligerent countries resulted in a much greater demand for American manufactures in neutral markets. Thus it came about that United States goods never before carried in stock by dealers in South America, China and other Far Eastern countries, and elsewhere were introduced to

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foreign consumers. Such characteristic American products as automobiles, typewriters and other office appliances, sewing machines and other labor-saving devices, agricultural implements, and industrial machinery of various kinds had long been favorably known abroad. But during the last four years our export figures have included such comparatively unfamiliar articles as woolen goods, jewelry, dyes and other chemical products, miscellaneous paper goods, and pharmaceutical products. The following figures which show the increase in American export trade from the fiscal year 1913 to the close of the fiscal year 1918 according to destination are interesting evidences of the large expansion of our export trade in manufactured products:

### EXPORTS FROM THE UNITED STATES BY GEOGRAPHIC DIVISIONS, 1913-18

*(In thousands of dollars)*

	1913	1916	1918	Per Cent. of In- crease, 1918 over 1913
Europe	\$1,479,075	\$2,999,305	\$3,738,231	152.74
Canada	415,449	468,785	778,510	87.39
Central America	40,220	41,704	44,310	10.16
South America	146,148	180,175	314,564	115.23
Cuba and West Indies	99,473	163,516	293,075	194.62
Australia, New Zealand and British Oceania	52,708	74,218	84,712	60.71
Asia	115,057	278,611	447,457	288.90

It will be noted that the tremendous increase in our exports to Europe was proportionately exceeded in the case of shipments for Asia and the West Indies and was nearly equalled by the increase in exports to South America. It should also be remembered that our ex-

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ports to countries outside Europe include a larger proportion of general manufactures than of foodstuffs, raw materials for industry, and munitions of war. The very small gain in our trade with Central America is attributable to the decreased purchasing power of those countries, resulting from the depression of the coffee market since 1914 and the general cessation of all enterprises requiring foreign capital. The value of American exports entering Central American countries has increased steadily, however, since 1913. In Australia and New Zealand the comparatively small increase may be attributed partly to curtailed imports of articles of luxury during the war and partly to a natural tendency to give preference to products of the British Empire, but mostly to the lack of shipping.

The figures on the opposite page indicate the growth of our export trade in a number of important commodities other than munitions of war, the figures being given in even millions, except where indicated by decimals.

American industries that have expanded rapidly under war demands are in many cases looking to export markets to take their surplus product after the war. They expect to use their excess productive capacity in supplying such markets as South America and the Orient. For certain lines of industry a valuable market may be offered in Europe, where intensive work of reconstruction must necessarily be carried on. Factory machinery will have to be replaced, devastated areas rebuilt, and large quantities of equipment and supplies in many lines will have to be replaced as a result of the destruction of the war.

If the United States is to retain a fair share of the world's trade, the logic of our position is clear. Compe-



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**EXPORTS FROM THE UNITED STATES BY CHIEF PRODUCTS, 1913-18**  
(*In millions of dollars*)

Article	1913	1916	1918
Cotton textiles	31	46	103
Electrical machinery	27	30	55
Binder twine	8	11	20
Dyes and dyestuffs	0.3	5	17
All chemicals, drugs, dyes, and medicines	*79	109	152
Cutlery	1	4	6
Gas engines	11	12	34
Mining machinery	10	8	12
Bolts, nuts, rivets, and washers	1.7	3	6
Sugar-mill machinery	3	6	12
Textile machinery	2	3	6
Miscellaneous machinery and parts	23	32	41
Cast iron pipe and fittings	**	3	9
Structural iron and steel	16	12	24
Tin-plate and manufactures of tin-plate	6	19	58
Tools, miscellaneous	13	15	23
Wire (not barbed)	6	16	21
Paints, colors and varnishes	8	11	17
Newsprint paper	2.5	3	10
Paper, all other kinds	22	29	50
Cigarettes	3	4	18

\* Figure for 1915.

\*\* Not shown separately.

tion for foreign markets will continue keen. Our leading foreign competitors are resorting to coöperative effort and Government support. To meet this situation our manufacturers, in the first place, should be encouraged to form coöperative associations. They cannot engage individually in commercial rivalry with the consolidated, trained trading interests of Europe. Congress has recognized the logic of our position and enacted a law permitting the association of competitors as well as non-competitors for the purpose of promoting export trade.<sup>4</sup> This Act, known as the Webb Act, declares that nothing contained in the Sherman Anti-Trust Act shall

<sup>4</sup> Quoted in Appendix VIII.

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be construed as declaring to be illegal an association entered into for the sole purpose of engaging in export trade and actually engaged solely in such export trade, or an agreement made or act done in the course of export trade by such association, provided that the export trade of no domestic competitor is restrained and provided trade within the United States is not restrained, as, for example, by unduly enhancing or depressing prices. The enactment of this law, however, will not assure the success of American export trade. It merely removes an obstacle. The responsibility for the constructive work of building up export associations and for their successful operation rests primarily with American business men.

A number of objections have been raised to export associations, but most of the opposition is the result of a failure to understand their purpose and the limitations that will necessarily be thrown around them. Many of the arguments against them, when reduced to the last analysis, are arguments against export trade. If it be admitted that export trade is desirable, it would seem to follow necessarily that our business men should be permitted to promote such trade by the adoption of means that will enable them to compete on an equality with their foreign rivals. In most of the fields into which they will go, their work must perforce be pioneer work, and must be carried on against the entrenched and powerful opposition of European concerns. As a people we have an interest in placing our own business men on an equality—but only on an equality—with their powerful competitors abroad. Competition in foreign trade is keen, and we owe it to American business men to permit such organization among them as will enable them to meet their foreign rivals in price, quality, and

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service. Such was the purpose that led to the enactment of the law permitting export associations.

The Webb Act was the initial step toward enabling American business men to adopt a permanent export policy; the initiative and imagination of American business men may be depended upon to do more. The small American manufacturer, as a rule, has in the past looked upon the foreign market as a place where he might dump, usually through commission houses, whatever surplus product he could not sell in the home market. This sort of export business is unsatisfactory, and in the long run has few beneficial results. Export business must be taken seriously. Technical men must be employed to help in the merchandising of goods. Particular foreign markets must be studied. The customs, needs, and prejudices of the foreign buyer must be learned. Products must be standardized, not according to American ideas, but according to the ideas of the foreign buyer. In many cases goods must be produced primarily for export. Coöperative effort itself will stimulate economy, encourage uniformity and standardization, permit the accumulation and use of extensive knowledge relating to the customs and needs of foreign peoples; it will help to stabilize American industry and to reduce the reaction and suffering that come from industrial depression and a limited market; it will permit the employment of men of greater ability for the purpose of selling American goods abroad; and it will lead to the development of new fields and the extension of American enterprises in foreign countries.

Foreign trade requires not only coöperation among the exporters themselves, but also the support of large commercial organizations and the Government itself.

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Merely removing the obstacle of the anti-trust legislation is not sufficient; something affirmative should be done. Commendable work is being done toward promoting American export trade by such non-governmental organizations as the National Foreign Trade Council, the National Association of Manufacturers, the American Manufacturers' Export Association, the Merchants' Association of New York, the Chamber of Commerce of the United States of America, and the Philadelphia Commercial Museum.

The National Foreign Trade Council is composed of leading merchants, manufacturers, farmers, railroad and steamship men, and bankers, representing all sections of the United States and collectively standing for the general interest in foreign trade. The announced purpose of the Council is "to endeavor to coördinate the foreign trade activities of the nation and collaborate with the Chamber of Commerce of the United States of America" in order that "the industrial, commercial, transportation and financial interests should coöperate in and endeavor to extend our foreign trade." The Council has a permanent secretary, issues important reports, and holds an annual meeting which is a unique clearing house for the discussion of the larger problems of foreign trade. The Foreign Trade Department of the National Association of Manufacturers maintains a permanent office staff and keeps in touch with trade experts both in the United States and abroad. It gives particular attention to foreign credits and collections, translation for export trade, foreign freight rates, and foreign patents and trade-marks. It renders credit reports, assists in the collection of foreign debts requiring litigation, and by supplying current freight rates makes possible the quotation of c.i.f. (cost, insurance, and

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freight) prices. A third important national association for foreign extension is the American Manufacturers' Export Association. It also maintains a department devoted to foreign credit information, patent and trademark requirements, transportation rates, and similar information. The Chamber of Commerce of the United States of America has also a foreign-trade information service, and from time to time issues circulars regarding current problems abroad. The Foreign Trade Bureau of the Philadelphia Commercial Museum, which should not be overlooked in any survey of foreign-trade organizations, is well equipped to assist those interested in export trade. It prepares catalogues and advertising material, translates correspondence, selects foreign agents, furnishes credit reports, and lists foreign trade opportunities.

These organizations do not by any means exhaust the list of those interested in export trade. More local, but nevertheless important, are the foreign-trade departments of the chambers of commerce of some of our leading cities. The Merchants' Association of New York is important because of its location in the great metropolis, but the Chambers of Commerce of Boston, Cincinnati, Cleveland, Chicago, Detroit, Dayton, Los Angeles, Philadelphia, Portland, Oregon, Pittsburgh, Seattle, St. Louis, San Francisco, and other cities are also important. The larger national trade associations of the country have in many cases taken an active interest in foreign trade. Among those that have given special attention to their own more complicated foreign-trade problems may be mentioned the National Lumber Manufacturers' Association, the National Cannery Association, the Tanners' Council, the Textile Alliance, the Manufacturing Jewelers' Board of Trade, the National Boot and Shoe

# COMMERCIAL POLICY

## DISTRIBUTION OF FOREIGN BRANCHES OF AMERICAN BANKING INSTITUTIONS

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## EXPORT TRADE

Manufacturers' Association, the New England Shoe and Leather Association, and the National Implement and Vehicle Association. In a survey of non-governmental bodies for promoting our foreign trade the American chambers of commerce in various foreign commercial centers should not be overlooked. The foremost is that in Paris, which has been promoting American trade interests in France since 1894. Other American chambers of commerce in Europe include those of London, Naples, Milan, Amsterdam, Barcelona, and, before the war, Berlin, Brussels, and Constantinople. There are also American chambers of commerce in Buenos Aires, Rio de Janeiro, and Shanghai.

There has been a rapid extension of American banking interests in foreign countries during the last few years. The value of foreign banking institutions to a great trading and buying nation such as the United States is patent. At the end of the most exhaustive struggle in history, the United States, as the great creditor nation of the world, will find still greater use for banks established abroad by American capital. The number of branch banks abroad has been greatly increased, and there is under consideration the establishment of discount companies handling paper covering foreign-trade transactions somewhat similar to the well-known discount houses of London. The present distribution of American banking institutions abroad is shown in the table on page 174. The figures indicate only branches, omitting sub-branches, of which there are several in some countries.

The American Government itself, particularly through the Bureau of Foreign and Domestic Commerce, the Consular Service of the State Department, and the Foreign

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Trade Adviser of the State Department have done effective work in promoting export trade. The Bureau of Foreign and Domestic Commerce is the authorized Government agency for distributing all commercial information collected by the Consular Service of the Department of State and by its own commercial attachés and trade commissioners. This information is disseminated through a daily publication known as *Commerce Reports*, special monographs, and unpublished bulletins which are sent to those particularly interested. The Bureau of Foreign and Domestic Commerce has district offices in New York, Chicago, Boston, St. Louis, San Francisco, Seattle, and New Orleans.

The foreign investigations conducted by the Bureau have been of particular value to American manufacturers and exporters. The commercial-attaché service of the Bureau was inaugurated in 1914. These attachés, at present located in London, Paris, The Hague, Copenhagen, Rome, Madrid, Tokio, Peking, Buenos Aires, Rio de Janeiro, and Lima (and before the war at Berlin and Petrograd), are commercial advisers of the ambassadors and ministers and general promoters of the larger commercial interests of the United States. The Bureau is making extensive plans for studying foreign markets in behalf of American manufacturers.

On February 28, 1919, President Wilson approved the establishment of a central Foreign Trade Committee to be composed of representatives from each of those departments, commissions, and administrative boards of the Federal Government which in any way handle foreign trade questions. The purpose of the Committee is to consider and make suggestions concerning foreign trade and commerce with a view to promoting full co-ordination of effort.



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The work of the Pan-American Union should also be mentioned in connection with trade promotion. Since its organization in 1907 it has done exceptionally good work in developing closer commercial relations between the United States and Latin America.

Not the least among the ways in which the Government may promote the commerce of the United States is by the enactment of legislation permitting the establishment of free ports where required by the national needs. A free port or zone is an instrumentality of commerce and does not affect the established tariff policy of the country. The Tariff Commission says:<sup>5</sup>

A free zone may be defined as an isolated, inclosed, and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unlading, for supplying fuel and ship's stores, for storing goods and for reshipping them by land and water; an area within which goods may be landed, stored, mixed, blended, repacked, manufactured, and reshipped without payment of duties and without the intervention of customs officials. It is subject equally with adjacent regions to all the laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and indeed everything except the customs.

The purpose of the free zone is to encourage and expedite that part of a nation's foreign trade which its government wishes to free from the restrictions necessitated by customs duties. In other words, it aims to foster the dealing in foreign goods that are imported, not for domestic consumption, but for reexport to foreign markets, and for conditioning, or for combining with domestic products previous to export.

While the dangers connected with unrestrained competition among nations should be recognized,<sup>6</sup> the error

<sup>5</sup> "Free Zones in Ports of the United States," Report of United States Tariff Commission to the Senate Committee on Commerce with reference to Senate Bill 4153, 62d Cong., 2d Sess. (1918).

<sup>6</sup> Chapters XI and XII.

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of condemning international trade and its promotion should not be made. It may be that the system is wrong and that Governments, as has been suggested, should make buying and selling between nations a Government monopoly. In the absence of such drastic action, however, it is incumbent upon each nation to further its own interests in the rivalry for markets. Just as there are some ways by which export trade should not be promoted, there are some ways by which it should. Unless America has commercial interests abroad, her moral influence in the elimination of unfair practices and discrimination in international trade will be weak. The American public asks that unfair methods be avoided in export trade, but it is willing that our export interests be pressed with the utmost vigor and promoted by every legitimate means. The extension of American export trade in manufactured good is not necessarily made at the expense of our foreign competitors. The consuming capacity of most of the importing countries will increase. With the normal growth of population and wealth in the older countries and the continued development of new countries like Argentina, Brazil, and the British self-governing dominions, the volume of international trade will grow steadily. Moreover, the probable increased purchasing power of the masses in countries such as China and India, where modern industrialism is supplanting primitive methods, will doubtless be an important factor in the world trade of the future.

National and business interests run parallel up to a certain point. The policy of the Government fighting business is antiquated. Industry and trade are not things apart from our national life but an essential element of it. But in recognizing frankly the desirability of foreign trade and the necessity for organization in

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many lines, we must avoid the extreme of approving all that may be done in the guise of export organization. Our duty is not done when business men have been allowed to organize in order to meet on an equality their foreign competitors. The day of letting business alone or ignoring it is passed. Liberty in foreign trade is as much an anachronism as it is in domestic trade. We have removed the restraints of the Sherman law in export trade because they applied a wholly inconsistent and undesirable rule in trade between nations. But that is only one side of the shield; the other is strict regulation and control.<sup>7</sup> We have permitted our business men to organize not that they may exploit foreign peoples, not that they may make exorbitant profit, not that they may go forward and embroil this country in economic difficulties with other peoples, but that our resources and industrial development may continue along sound lines increasing the prosperity of the American people and assisting other nations in their upward progress toward material prosperity.

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<sup>7</sup> See Chapter XI.

## CHAPTER X

### BARGAINING TARIFFS TO PREVENT DISCRIMINATIONS

Tariff discriminations classified—Those based on policy—Concealed discriminations—Open discriminations—Necessity of bargaining provisions in a nation's tariff laws—Penalty duties—Section 2 of the Tariff Act of 1909—Its defects—Commercial treaty provision of the Tariff Act of 1913—A proposal for penalty duties—General and conventional tariff system of Germany—Maximum and minimum tariff system of France—Most-favored-nation clause in commercial treaties—The American or conditional form and interpretation of this clause—Opinions of Federal courts and the Department of State—The European or unconditional form and interpretation of the most-favored-nation clause—The spirit in which a flexible tariff should be enacted—The principle of equality of treatment.

Tariff discriminations for our purpose may be divided, broadly speaking, into three classes. The first are those that are not generally recognized as subjects for bargaining among nations. They include preferential tariffs or national reciprocity treaties or arrangements that are expressions of settled policies of peoples toward their colonies or toward other nations. Within this class fall, among others, preferential tariffs between parts of the British Empire, the colonial tariffs of France, and the reciprocity policies of the United States under the Tariff Acts of 1890 and 1897. These discriminations raise an essentially international question and will be considered when the world aspects of commercial policy are discussed.<sup>1</sup>

The second class of tariff discriminations are concealed discriminations. Sometimes they exist in the administration of customs regulations or in the enforcement of

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<sup>1</sup> Chapters XIV-XVI.

## BARGAINING TARIFFS

inspection or sanitary laws. On ostensibly sanitary grounds, for example, Germany from 1883 to 1891 prohibited the importation of American hogs, pork, and sausages. In reality this action was taken to protect the German agrarian classes. After many efforts to remove this unjust discrimination against American producers Congress enacted a bargaining clause which was in part as follows (Sec. 5, Meat Inspection Act of August 30, 1890) :

That whenever the President shall be satisfied that unjust discriminations are made by or under the authority of any foreign State against the importation to or sale in such foreign State of any product of the United States, he may direct that such products of such foreign States so discriminating against any product of the United States as he may deem proper shall be excluded from importation to the United States; and in such case he shall make proclamation of his direction in the premises, and therein name the time when such direction against importation shall take effect, and after such date the importation of the articles named in such proclamation shall be unlawful. The President may at any time revoke, modify, terminate, or renew any such direction as, in his opinion, the public interest may require.

Moreover, the Tariff Act of 1890 authorized the President to impose penalty duties on certain products when imported from countries whose treatment of American products was not "reciprocally equal and reasonable." To forestall the application of these laws against her, Germany, in the Saratoga Convention of 1890,<sup>2</sup> agreed to remove the objectionable discriminations. Sometimes discriminations are concealed in tariff classifications where, under the guise of equality of treatment, tariff rates are made higher on the goods that are peculiarly the products of one country and lower on the peculiar

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<sup>2</sup> Sen. Ex. Doc. 119, 52d Cong., 1st Sess., p. 110.

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goods of another. Germany's bargain-tariff schedules were arranged ingeniously in this respect so that in bargaining she need give only the minimum of concessions. The most conspicuous example of this specialization is item No. 103 of her conventional tariff, which fixes a special rate on "large dappled mountain cattle or brown cattle, reared at a spot at least 300 metres above sea level, and which have at least one month's grazing each year at a spot at least 800 metres above sea level." Under this provision Alpine cattle from Switzerland were admitted at a low rate of duty, whereas cattle from Russia, The Netherlands, and France were required to pay a much higher rate. Concealed discriminations need not be intentional. There have been high tariff rates in the American tariff acts on lumber, for example, which in theory applied to all countries alike but which in practice affected only Canadian interests. The prohibitive tariffs on canned goods in certain South American countries result, unintentionally perhaps, in a particular hardship to the American canning industry.

As will be pointed out later,<sup>3</sup> concealed discriminations should be a subject for investigation by an international commission. Some of them are no doubt justified on domestic grounds. All of them, nevertheless, should be given publicity by an impartial commission in order that the injured nation may take such action as seems wise, either by negotiation or retaliation, for the purpose of removing them.

The third class of tariff discriminations are those open discriminations that may be removed by bargaining negotiations between the nations concerned. They are found in surtaxes or in national tariff systems containing discriminatory tariff rates adopted for the very purpose

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<sup>3</sup> See Chapter XVI.

## BARGAINING TARIFFS

of providing a basis for bargaining with other nations for concessions. Such are the general and maximum tariff schedules of certain European countries.

It is clearly the duty of a nation so to organize its own economic power as to be in a position to bargain for the removal of discriminations falling within the second and third classes. In some degree concealed discriminations raise an international question, but in last analysis they and the discriminations of the third class must be removed by national action. The fear of penalties is one of the best means of removing them. A nation unready to bargain for equality of treatment is no more likely to get it than a trader is likely to succeed in barter if he has no goods to offer in return. The duty of a nation to protect itself in commercial matters cannot be escaped by attempting to turn over to an untried international organization the work of removing tariff discriminations. International organization is desirable, but in seeking an international solution for tariff discriminations we should be slow to abandon such effective means of preventing discriminations as nations themselves may employ. One method of enforcing equality of treatment is the use of penalty duties to be applied to those nations that refuse most-favored-nation treatment. Perhaps more important are the bargaining tariff systems of European states. These systems, supplemented by the European interpretation of the most-favored-nation clause in commercial treaties, have been powerful factors in equalizing trade conditions and preventing trade wars.

Either of these bargaining methods may be employed by the United States. The first, the penalty-duty method, can be adopted without a general revision of

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the present tariff law<sup>4</sup> and without a modification of our traditional attitude toward the most-favored-nation clause in commercial treaties; the second, the concession method, if adopted by the United States, will require a general revision of the tariff, and if all its benefits are desired, will require also the adoption of the European interpretation of the most-favored-nation clause.

The adoption of penalty duties has the limitations of any method that relies on threats, either open or veiled, for the accomplishment of its end. But in the hands of skilful negotiators such duties need not be the source of international friction. Their use should be specifically limited to removing discriminations and enforcing equality of treatment. It should never be extended to obtaining special privileges.

In the Tariff Act of 1909 Congress specifically abandoned the special reciprocity methods followed under the Tariff Acts of 1890 and 1897,<sup>5</sup> and adopted in Section 2 a penalty provision the purpose of which was to remove discriminations against American interests abroad. This section declared that the "maximum tariff of the United States" should consist of "the dutiable list of Section 1 of this Act, and in addition thereto twenty-five per centum *ad valorem*." The President was then authorized to extend by proclamation "the minimum tariff," *i. e.*, the schedule rates, to the products of those countries that were found not to "unduly discriminate against the United States or the products thereof" by imposing "terms or restrictions, either in the way of tariff rates or provisions, trade or other regulations, charges, exactions, or in any other manner, directly or

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<sup>4</sup> Act of October 3, 1913.

<sup>5</sup> See Chapter XIV.



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indirectly, upon the importation into or the sale in such foreign country" of any product of the United States or by paying an export bounty or by imposing an export duty or prohibition upon the exportation of any article to the United States. The purpose expressed in the section was to obtain "reciprocal and equivalent" treatment for the products of the United States.

Although sound in principle, experience disclosed some defects in this bargaining provision. These were pointed out by Philander C. Knox, Secretary of State, in a letter dated December 13, 1911, addressed to Oscar W. Underwood, Chairman of the Committee on Ways and Means, and a draft of a bill avoiding these defects was submitted but never acted upon. The letter reads in part as follows:<sup>6</sup>

In adjusting the tariff and trade relations of the United States with other nations under terms of the maximum and minimum tariff provided in Section 2 of the tariff law of August 5th, 1909, there were developed numerous instances of tariff and administrative discriminations against the products of the United States. Through the negotiations which followed the enactment of the law most of the flagrant instances of discrimination were removed or were equalized by compensations in tariff rates rendered by other countries in exchange for the granting of the minimum tariff of this country. Some instances of discrimination could not be removed by negotiations and because of their minor character, when considered in relation of the commerce thus involved to the entire commerce of the United States with the particular offending country and they were permitted to remain.

The remarkable growth of this country's export trade in the last two years is of itself evidence of the enlarged markets obtained and equalized opportunity made possible by Section 2 of the tariff laws.

Time has developed the desirability of seeking measures for

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<sup>6</sup> *New York Herald*, December 15, 1911, p. 3.

## COMMERCIAL POLICY

further adjustment in cases where it is now apparent American enterprise suffers embarrassment or loss of trade or opportunity abroad.

The problem presented is to remove, so far as practicable, those features in foreign practice adverse to our export-trade development and of serious import to American enterprises directly affected. To solve this problem will call for an amendment of Section 2, whereby will be afforded a degree of elasticity in the imposition of tariff rates suited to the offenses intended for correction. These offenses are not many, but their importance, in justice to our commerce and industry, must not be overlooked. In detail, there may be mentioned a few of the more notable cases, some of which existed at the time of the negotiations under Section 2 and others which have since developed.

*Belgium.* The failure of the administration of State railways to permit the Continental Petroleum Company of Antwerp, representing a Texas oil-exporting concern, to bid for supplying the State railways with lubricating oil of American production. The advertisement for bids invariably specified oil of Russian production.

*Germany.* (a) The embargoing through administrative action of meats of American origin; (b) The enactment of a law in May, 1910, regulating the output of potash mines and so taxing surplus production as to render valueless certain advantages obtained by Americans in their contracts with German mines and greatly reducing the tax-free output of the two mines owned and controlled by American capital, the result being to lodge the control of the price-making power for the potash consumption of the United States in the hands of a German syndicate of mine owners and to remove the competition in buying which would have been possible under the recognition of the contracts with the independent mines, including the two American-owned mines, not members of the syndicate; (c) The export certificate practices which provided the equivalent of bounties upon exports, and which are destructive of American trade in neutral markets; (d) The existence of rates of freight on State Railways much greater east bound than west bound on the same commodities by means of which the competing products of Austria and Russia have material

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advantages in their distribution in Germany as compared with products of the United States.

*Italy.* The imposition of a manufacturing tax upon imported cottonseed oil—a distinctively American product—whereas no such tax is levied upon any other imported edible oil.

*Austria-Hungary.* (a) Rates of duty upon cotton-seed oil more than double the rate applied to any other edible oil with which refined cotton-seed oil comes in competition; (b) The unequal and oppressive measures authorized by the government and applied to American investments in Austria with respect to the conversion of crude oil into refined oil and the distribution of the finished product as compared with the treatment accorded the investments of Austrian citizens similarly engaged.

*Bulgaria.* The requirement that cotton-seed oil when imported shall be denatured and rendered unfit for human consumption.

*Portugal.* The practical prohibition of imports of cotton-seed oil.

It has been observed that similar instances of discrimination as between European nations have found adjustment through means at hand for specific retaliation where conciliatory measures have failed.

The Department feels that in the suggested amendment to Section 2 provision should be made for varying rates of tariff to be added to the minimum rates—not less than five per centum ad valorem and not exceeding twenty per centum, applicable by proclamation when, through the investigations made at the instance of the President, he shall have become satisfied that another nation's laws or practices as relating either to tariffs or commercial methods having governmental sanction are inimical to that equal opportunity in trade and commerce to which American enterprise is fairly entitled.

With respect to the logical course of the United States when foreign methods bar out national progress in seeking equality of opportunity abroad, the department feels that only by a practical means of effectively offsetting adverse action of other nations can injustice to our foreign commerce be overcome. *It is convinced that equal opportunity for*

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*enjoying the minimum tariff of the United States and the abundance of commercial opportunity thus vouchsafed should not be conceded to such nations as deny to American citizens rights and privileges granted to others. It is realized that the gravity of the offense should be met by a suitable remedy — one that may be graduated to meet the degree of embarrassment sought to be corrected. This might call for the imposition of additional duties of from five to twenty-five per centum upon a few commodities, or it might require that all of a nation's exports to the United States should be subject to rates of duty higher than the existing minimum. Instances might arise where to subject commodities now upon the free list to the payment of duties would be found to be the only measure of relief for offensive treatment; or the prohibition of imports in aggravated cases might be necessary. . . .*

The Tariff Act of October 3, 1913, provides that for the purpose of readjusting the duties on importations into the United States and for the purpose of encouraging the export trade of this country the President is authorized and empowered to negotiate trade agreements with foreign nations "wherein mutual concessions are made looking toward freer trade relations and further reciprocal expansion of trade and commerce." Before such agreements become effective their ratification by the Congress of the United States is required.<sup>7</sup>

The President, however, already had power under the Constitution to negotiate commercial treaties, and this provision of the tariff Act merely modifies the method of ratifying them. The section does not lend itself to the carrying out of a consistent commercial policy. In the complex conditions of commercial bargaining no consecutive policy can be carried out by negotiating treaties here and there which in each case have to be submitted to the Senate for ratification or to Congress for approval.

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<sup>7</sup> Section 4A.

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The many minor discriminations referred to by Mr. Knox can in only a few cases be reached by this method. More discretion should be placed in the hands of the Executive, and more flexible machinery should be devised for carrying out tariff bargaining.

If it is desired in this country to supplement the existing Tariff Act with a section providing for penalty duties, the President might be given power to impose, by proclamation, an increase of duties not to exceed a specified per centum of the present duties either on all or on certain enumerated products when imported from any country that, in his judgment, discriminates against the goods of our manufacturers or that fails to give us concessions in its markets equivalent to those given other nations. In the case of products now on the free list a maximum penalty duty might be provided for. Stated in another way, the President might be given power to suspend, by executive order, the privileges granted by the general tariff schedules to any nation refusing us equal treatment in its markets, and thereafter the higher penalty duties would become effective against the imports of such discriminating country. While limiting the increase in duties that the President might impose, Congress should make the provision flexible in order that the penalty could be made to fit the offense. The President should be permitted to apply any rate below the maximum necessary to accomplish the purpose of the law. Under this plan, the general tariff rates of the Act of October 3, 1913, now in force, would constitute a sort of minimum tariff; the rates in the bargaining section would stand as a sort of maximum tariff. The President would inquire into the treatment given our goods in foreign markets. If he found that in a given country our goods were not being discriminated against

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but that they were receiving equality of treatment, he would leave the present rates operative upon imports from that country. If, on the contrary, there were discriminations, and if equal treatment were not given, and if negotiations did not result in an adjustment which, in the judgment of the President, was equitable, he would then declare by proclamation that the higher rates were to be put into effect against the imports of the discriminating country.

If the penalty duties do not seem desirable or adequate, European methods offer valuable precedents for bargaining by means of making tariff concessions. Two systems are distinguishable: the general and conventional, and the maximum and minimum tariffs.

The German tariff system offers the most conspicuous example of the former. It consists of a general tariff fixed by the legislature and a lower set of duties called the "conventional tariff" which are fixed by the executive branch of the Government in bargaining with other nations and which are then embodied in treaties<sup>a</sup> running for a definite term of years. By thus binding herself by treaty to maintain certain rates, Germany surrenders for a time her right to change her tariff. The conventional rates are extended to all nations that are by treaty entitled to receive most-favored-nation treatment. It is essential to the effective working of a general and conventional tariff that as soon as a concession is given by convention to one nation, it shall automatically accrue to the benefit of every other "favored" nation. For this reason this system tends to establish equality of treatment and to prevent nations from dis-

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<sup>a</sup> In the German tariff there are a few minimum rates on agricultural products fixed by the legislative branch of the Government.

## BARGAINING TARIFFS

criminating against each other. It has been a big factor in establishing harmonious tariff relations.

Our Federal Constitution probably does not permit the adoption in this country of a tariff system that would vest in the executive branch of our Government the power to fix without limit the effective tariff rates. The maximum and minimum tariff system, with possibly some modifications, is, therefore, more adapted to the needs of the United States. This system, of which the French tariff offers the best example, has a maximum tariff similar to the general tariff referred to above, but the bargaining rates are fixed by the legislature instead of allowing the executive branch of the Government freedom in determining them. Two rates are agreed upon for practically every article enumerated in the Tariff Act, and the lower or minimum rates are used in bargaining concessions from other countries. Although not absolutely necessary to the effective operation of a maximum and minimum tariff system, the so-called unconditional form of the most-favored-nation clause is a desirable supplement to a plan that seeks to establish, by bargaining, equality of treatment. It guarantees that every nation that by its conduct is entitled to most-favored-nation treatment will receive it automatically.

The multiple-tariff systems of Europe have some advantages over penalty duties in establishing equality of opportunity in international commercial relations. From a negotiating point of view, it is more effective to offer to lower the rates of the regular tariff to those countries granting equal treatment than to threaten to penalize if discriminations are not removed. The offer, in return for equal treatment, to reduce rates which represent for the time being the settled policy of a country makes a greater appeal in international bar-

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gaining than a threat to impose additional duties by way of penalty. If in the future it should seem wise to Congress to revise the tariff generally, maximum and minimum tariff schedules might be enacted, the latter to be granted to those countries that give to us most-favored-nation treatment.

The most-favored-nation clause in commercial treaties presents a difficult problem, particularly for the United States. From the very beginning of our national existence we have declined to interpret this clause as the nations of Europe now interpret it. In the earlier days of American diplomacy our position was perhaps justified, but in any broad consideration of tariff discriminations and commercial treaties, we must be prepared to face the necessity of abandoning our traditional attitude if it should appear expedient.

In almost all the treaties of commerce and navigation which, before the war, covered the world with a veritable network, there was found this most-favored-nation clause. It is essentially the basis of modern commercial treaties. Its divergent forms and interpretations are known as the conditional and the unconditional. But each of these appears in many variations of form.

The conditional form and interpretation have been adhered to chiefly by the United States. In all but a few exceptional instances we have contended that the clause did not require us to grant concessions to a third nation unless the third nation granted similar or equivalent concessions in return. Following the rule of the Anglo-Saxon law of contracts, we have insisted upon a consideration. If a concession was freely made, it was extended to other nations entitled to most-favored-nation treatment, but if it was granted in return for a



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concession, it was extended to the most-favored-nation only upon its granting an equivalent concession. A typical clause embodying the American policy is that of the treaty between the United States and Colombia (October 3, 1824) in which the parties

desiring to live in peace and harmony with all the other nations of the earth, by means of a policy frank and equally friendly with all, engage mutually not to grant any particular favor to other nations, in respect to commerce and navigation, which shall not immediately become common to the other party, who shall enjoy the same freely if the concession was freely made, or on allowing the same compensation if the concession was conditional.

Both the Federal courts and the Department of State have in the past supported the conditional interpretation of the most-favored-nation clause whether or not the clause contained specific language to that effect. In the case of *Bartram vs. Robertson*<sup>9</sup> the plaintiff claimed that sugar from St. Croix should be admitted under the treaty with Denmark because like articles the product and manufacture of the Hawaiian Islands were under treaty and the Act of Congress of August 15, 1876 admitted free of duty. The most-favored-nation clause in the Danish treaty provided that the parties "engage mutually, not to grant any particular favor to other nations in respect of commerce and navigation which shall not immediately become common to the other party, who shall enjoy the same freely, if the concession were freely made, or upon allowing the same compensation, if the concession were conditional." The Supreme Court in its opinion said: "Our conclusion is, that the treaty with Denmark does not bind the United States to extend to that country, without compensation, privi-

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<sup>9</sup> 122 U. S. 116 (1886).

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leges which they have conceded to the Hawaiian Islands in exchange for valuable concessions. On the contrary, the treaty provides that like compensation shall be given for such special favors."

The question came up again in a somewhat different form in the case of *Whitney vs. Roberson*.<sup>10</sup> The treaty involved was that with the Dominican Republic from which the clause about "free concessions and concessions upon compensation" was omitted. Nevertheless, the Supreme Court upheld the American interpretation of the most-favored-nation clause. It said:

We do not think that the absence of this provision changes the obligation of the United States. The 9th article of the treaty with that Republic (Dominican Republic), in the clause quoted, is substantially like the 4th article in the treaty with the King of Denmark. And as we said of the latter, we may say of the former, that it is a pledge of the contracting parties that there shall be no discriminating legislation against the importation of articles which are the growth, produce, or manufacture of their respective countries, in favor of articles of like character, imported from any other country. It has no greater extent. It was never designed to prevent special concessions, upon sufficient considerations, touching the importation of specific articles into the country of the other. It would require the clearest language to justify a conclusion that our Government intended to preclude itself from such engagements with other countries, which might in the future be of the highest importance to its interests.

Not only our courts but our statesmen have argued for the conditional form of the clause. In October, 1787, John Jay, Secretary for the Department of Foreign Affairs, in his report to Congress, said in discussing the most-favored-nation clause:<sup>11</sup>

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<sup>10</sup> 124 U. S. 190 (1887).

<sup>11</sup> Crandall, *The American Construction of the Most-Favored-Nation Clause*, p. 708.

## BARGAINING TARIFFS

It is observable that this article takes no notice of cases where compensation is granted for privileges. Reason and equity, however, in the opinion of your Secretary, will supply this deficiency . . . Where a privilege is gratuitously granted, the nation to whom it is granted becomes in respect to that privilege a favored nation . . . but where the privilege is not gratuitous, but rests on compact, in such case the favor, if any there be, does not consist in the privilege yielded but in the consent to make the contract by which it is yielded. . . . The favor therefore of being admitted to make a similar bargain is all that in such cases can reasonably be demanded under the article. Besides, it would certainly be inconsistent with the most obvious principles of justice and fair construction, that because France purchases, at a great price, a privilege of the United States, that therefore the Dutch shall immediately insist, not on having the like privileges at the like price, but without any price at all.

John Sherman, Secretary of State in 1898, in a long memorandum to Mr. Buchanan, American Minister to the Argentine Republic, said in speaking of the clause:<sup>12</sup>

It is clearly evident that the object sought in all the varying forms of expression is equality of international treatment, protection against the willful preference of the commercial interests of one nation over another. But the allowance of the same privileges and the same sacrifice of revenue duties, to a nation which makes no compensation, that had been conceded to another nation for an adequate compensation, instead of maintaining destroys that equality of market privileges which the "most-favored-nation" clause was intended to secure. It concedes for nothing to one friendly nation what the other gets only for a price. It would thus become the source of international inequality and provoke international hostility.

The most-favored-nation clause, therefore, as interpreted by our courts and public men is not an instrument of acquisition, not a means of generalizing con-

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<sup>12</sup> Moore, *Digest of International Law*, vol. v, p. 278.

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cessions, but a preventive of discrimination and a means of promising to other countries the opportunity to negotiate for concessions made to another state. From this position it was logical for us to use the clause in support of special reciprocity agreements.

The unconditional form and interpretation of the most-favored-nation clause has the purpose of generalizing concessions. It operates to extend automatically without negotiation to third nations those concessions agreed upon between any two. It assures to nations relying upon it that at no subsequent date will they be placed in an unfavorable position by negotiations to which they are not a party. It is a powerful factor working against special discriminations in favor of equality of treatment.

A typical clause of this character is the following one from the treaty between Great Britain and Japan (April 3, 1911):

The high contracting parties agree that, in all that concerns commerce, navigation, and industry, any favor, privilege, or immunity which either high contracting party has actually granted, or may hereafter grant, to the ships, subjects, or citizens of any other State, shall be extended immediately and unconditionally to the ships or subjects of the other high contracting party, it being their intention that the commerce, navigation, and industry of each country shall be placed in all respects on the footing of the most-favored nation.

The British Government in recent years has stood for the unconditional interpretation, which was stated in its extreme form by the Earl of Granville in 1885. He said:<sup>18</sup>

The interpretation of the most-favored-nation clause involved in the United States proposals is, that concessions

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<sup>18</sup> *Ibid.*, p. 270.

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granted conditionally and for a consideration cannot be claimed under it. From this interpretation Her Majesty's Government entirely and emphatically dissent. The most-favored-nation clause has now become the most valuable part of the system of commercial treaties, and exists between nearly all the nations of the earth. It leads more than any other stipulation to simplicity of tariffs and to ever-increased freedom of trade; . . . Its effect has been, with few exceptions, that any given article is taxed in each country at practically one rate only. . . . But should the system contemplated by the United States be widely adopted, there will be a return to the old and exceedingly inconvenient system under which the same article in the same country would pay different duties varying according to its country of origin, nationality of the importing ship, and, perhaps at some future time, varying also with the nationality of the importer himself.

It is, moreover, obvious that the interpretation now put forward (exactly that which had always been applied by the United States) would nullify the most-favored-nation clause; for any country, say, France, though bound by the most-favored-nation clause in her treaty with Belgium, might make treaties with any other country involving reductions of duty on both sides, and, by the mere insertion of a statement that these reductions were granted reciprocally and for a consideration, might yet refuse to grant them to Belgium unless the latter granted what France might consider an equivalent.

The object of the European interpretation of the most-favored-nation clause in commercial treaties is to generalize concessions, to guarantee that no country will be placed on a less favorable basis than another. It holds that concessions granted by treaty to one country are *immediately* and *unconditionally* to be extended to every other country entitled to most-favored-nation treatment.

During the war discussions in Europe cast some doubt on the value of the unconditional form and interpretation of the most-favored-nation clause. In the minds of the French this provision of the Treaty of Frankfort of

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1871 rankled. Plans of discrimination were frequently formulated. The most famous was that resolution of the Paris Economic Conference in June, 1916, providing that most-favored-nation treatment should not be granted to "enemy powers" during a period following the Peace Conference "to be fixed by mutual agreement" among the Allies.<sup>14</sup>

The two bargaining methods which have been discussed in this chapter both have the same object, the establishment of equality of treatment in international commercial relations. One may be used in one set of circumstances, the other in another. Without doubt the United States will need a more flexible tariff in the future than it has had in the past. The concessional method, if adopted in the United States, would require a general revision of the tariff. It involves virtually something in the nature of a maximum and minimum tariff. The rates of the minimum tariff would be those dictated by domestic policy and would be extended to all countries granting to the United States equality of treatment. In practice the minimum rates of a concessional tariff would be made in accordance with the revenue and industrial needs of the country and except in rare instances would be the effective tariff rates. The higher or maximum rates would, like penalty duties, be applied to those countries refusing most-favored-nation treatment. More important than the particular method of bargaining adopted, whether it be penalty duties or the concessional method, is the spirit which animates the legislation.

The Government of the United States has, since its

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<sup>14</sup> See Appendix II. See also British Report of the Committee on Commercial and Industrial Policy after the War (Cd. 9035), p. 49 *et seq.*

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establishment, contended for the conditional form of the most-favored-nation clause, and has argued that in doing so its intent was to offer and to secure equality of treatment. The actual result in practice has been special agreements establishing inequality. As it has worked out, the conditional clause has facilitated the negotiation of special agreements. The unconditional clause, on the other hand, gives and accepts guarantees that the nations concerned will not discriminate against each other. Here again much depends upon the spirit in which nations use the most-favored-nation clause. Unconditional most-favored-nation treatment, involving the generalization of each special favor, need by no means result in equality of treatment, and conversely, conditional most-favored-nation treatment, with its special reciprocity agreements, need by no means necessarily result in discrimination. Where, however, the guiding principle of a Government is equality of treatment, the presumption is in favor of the unconditional clause. It is a highly desirable supplement to the concessional method of bargaining, and in general tends to remove discriminations and to establish equality. It is a matter of serious debate whether or not the American interpretation of the most-favored-nation clause is adapted to the ideals of international politics and trade for which this country is now contending. The unconditional clause, on the other hand, has for its specific purpose equalization and generalizing of favors. In carrying out the principle of equality of treatment, it is very likely that the United States in the future will find the unconditional form and interpretation of the most-favored-nation clause most satisfactory. Any reversion by the European countries to the conditional form should also be deprecated. As long as the United States, or any other country, insists upon the conditional

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form of the clause, we retain a ground for friction between nations, and the world is deprived of one of the most effective means known to modern international commerce for establishing equality of treatment and international fair dealing.



## CHAPTER XI

### NATIONAL CONTROL OF AMERICAN COMMERCIAL ACTIVITIES ABROAD

Undemocratic tendencies in national commercial policy—Types of American commercial activity abroad—Export of food and raw materials—Export of manufactured goods—American factories abroad—American capital to develop foreign resources—Loans of American capitalists to foreign governments—Need for regulation—Types of complications which may arise—Neither imperialism nor *laissez faire* is a proper policy—Precedents for regulation and control—Need for more comprehensive control that will remove causes of international friction—Limitations of national regulation—First step toward a democratic world league is democratic life in individual nations.

On a democratic nation, such as America, rests the obligation to provide security and equality of treatment for its economic interests at home and abroad and to assist in developing its national resources. It may, if its needs demand, enact a tariff that equalizes conditions of competition against foreign producers, establish regulations that prevent dumping, promote foreign enterprises by its citizens, and compel equality of treatment for them abroad. But thus far there is little in the commercial policy of democracy that distinguishes it from an imperialistic nation. It may be asked: "Do not even the publicans do the same?" They do, but they do other things which are distinctly undemocratic. Nations that pride themselves on the democracy of their political institutions do not always pursue a democratic commercial policy.

The extension of American commercial activities abroad is not objectionable. Prosperity and goodwill

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are, as a rule, promoted by the general exchange of goods and capital among nations. But quietly and imperceptibly complications between American commercial interests and other countries may develop which may embroil the United States in diplomatic and perhaps military difficulties. The complexities of international finance and trade are little understood by the American people, largely because their domestic problems have been of absorbing interest. Occupied with the conquest of a continent and separated from Europe by the ocean, they have held to their traditional policy of isolation. But much water has run under the bridge since August, 1914. Our thoughts have been swept from national into international currents. In former years we as a nation moved too sluggishly in the great stream of foreign affairs. We regarded diplomacy as beyond the shores of our everyday life. It was for experts alone. Our commercial policy was at times haphazard and experimental. We seldom thought it through in the light of world politics. But now, when the world is full of change, it is natural to consider the desirability of modifying our traditional position. We have come to see that our foreign policy may be of even greater importance than our domestic policy, for in defense of the former we have been and may again be called upon to give thousands of lives and billions of dollars. Under the dramatizing influence of war we have come to realize the need of publicity, education, and general interest in foreign affairs.

It has become increasingly clear that one of the major causes of the war was the unregulated clash of the commercial interests of nations. Unfair practices, tariff preferences, transportation discriminations, colonial exclusiveness, exploitation of native populations, struggles

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for concessions and investments played a large part in stimulating the building of armaments, and when diplomacy failed, in causing the appeal to arms. In these respects the guilt is not Germany's alone. The Allies have a generous share of the world's imperialism on their side. Commercial aggressiveness, colonial ambition, concession seeking, and the use of political power to advance national aims, which we condemn in Germany, do not suddenly become commendable when practiced by the Allies. German methods in the Turkish Empire and Shantung have their parallels in the activities of the French in Morocco, the British in Egypt and Persia, and the Japanese in Korea and Manchuria.<sup>1</sup>

That many of these economic questions are primarily for international consideration is no excuse for individual nations not contributing to their solution by their own action. A democratic League of Nations cannot result from a grouping of imperialistic nations. America, championing the cause of world government, should be particularly sure that her foreign commercial activities are conducted in a fair, open, humane way. As in domestic trade, the public interest requires some degree of regulation and control of the business ventures of American citizens abroad.

American commercial activities in foreign countries, which before the war were extensive, have during the war expanded and become more varied. Their nature only, with a few typical illustrations, need be considered here. They may be conveniently classified under five heads.

(1) *The export of food and raw materials.*—America has always been a great exporter of foodstuffs. But

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<sup>1</sup> See Chapter XVII.

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before the war the increasing domestic demand steadily reduced the surplus of products of the farm and range available for export. During the war period, it is true, the export of foodstuffs broke all records, but it is probable that the pre-war tendency will reappear. Manufactured food products, such as canned goods, condensed milk, dried fruit, vegetable oils, prepared cocoa, and others, are becoming increasingly important in our foreign commerce. Certain raw materials are also large factors in our foreign trade. In supplying other countries with such essentials as lumber, sulphur, copper, and cotton we have played an important, and in some cases a dominant part. Our position in the cotton and sulphur trades has already been referred to. We export annually about three billion feet of lumber. In 1917 we exported copper valued at \$322,000,000. In that year 60.5 per cent. of the world's output of copper was produced in the United States.

(2) *The export of manufactured articles.*—For years the United States has exported many manufactured commodities peculiarly of American invention and design. They include shoe machinery, agricultural machinery, printing presses, sanitary plumbing, cash registers, adding machines, typewriters, and sewing machines. The growing export trade in more competitive products, such as cotton and silk textiles, steel, machine tools, rubber goods, paper, locomotives, motor trucks, electrical goods, and inexpensive automobiles, has been greatly stimulated by war conditions. In some lines American export interests have built up efficient and extensive selling organizations with representatives in many foreign countries; in others they have used the selling facilities of commission and mercantile houses doing business abroad, or they have sold direct to the foreign consumer.

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(3) *The establishment of factories abroad with American capital.*— There has been a tendency in recent years for the American exporting industries to establish branch factories abroad with American capital. Many motives have been back of this movement. The patent laws of some countries, Great Britain and Canada for example, require that in order to receive the protection of the Government against infringement the product patented must be manufactured to some extent in the country where the patent is obtained. Hence, many American producers of articles such as cash registers, adding machines, shoe machinery, and electrical apparatus have found it necessary to establish factories abroad. In other cases high tariff duties, which hindered the export of goods, have stimulated the export of capital, and factories to supply the foreign market have been established inside the tariff barrier. American capital in Canada, for example, is in part due to this influence. A third case is where American capital has established factories in foreign countries in order to be near a large, comparatively inexpensive source of raw material. With the rising cost of cattle in the United States, American packers have erected large plants in Australasia, Uruguay, Brazil, Paraguay, and Argentina from which they ship both fresh and canned meats. The establishment of American paper mills in Canada was stimulated by the desire to be near the valuable supply of spruce in the Canadian woods as well as by the provincial restrictions on the export pulpwood cut on Crown lands. Still another motive for establishing factories abroad is the desire to be near a cheap labor supply in order to reduce the cost of production of manufactured articles. This was no doubt one of the factors which influenced American capitalists to erect

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in China and Japan factories for the production of textiles and electrical goods.

(4) *The employment of American capital to develop foreign natural resources or to finance crops.*—American capital is heavily invested in Mexico. That country has been called the "Land of Concessions." According to an estimate made a few years ago by John Barrett, Director of the Pan-American Union, more than two-thirds of all the capital invested in Mexico was foreign, and of this foreign capital two-thirds was American. American investment is largest in mines. The *Mexican Year Book* estimates that of the \$647,000,000 invested in Mexican mines, \$500,000,000 is American. Americans have large investments in oil resources and in other enterprises in Mexico. They are interested in mining ventures in Bolivia and Chile. They have invested to some extent in the railroads and public utilities of Latin America. In the development and financing of tropical crops American interests have played a large part. They were pioneers in the tropical fruit business in the Caribbean and have acquired control of large plantations, railways and ports. The United Fruit Company operates a fleet of passenger, freight, and refrigerator vessels.

A characteristic feature of the production of a number of the most important agricultural products of Latin America is that they involve a considerable capital outlay and a long period of waiting for returns. It takes, for example, from seven to 10 years for a cacao plantation to attain full bearing. This initial expenditure, and the subsequent expenses of harvesting, export taxes, and sacks, require considerable financing, and these countries are, of course, "capital-poor." Moreover, the land cannot be devoted to different crops from

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year to year according to market conditions; the trees exist and continue to bear regardless of markets or prices. These conditions cause recurrent periods of over-production and low prices, and periodically threaten the financial stability of such countries as Ecuador, whose most important product is cacao. The channels of trade of these products are to a considerable extent determined by the sources from which financial support emanates. In 1918 the Mercantile Bank of the Americas undertook the financing of the Ecuador cacao crop, the chief commercial asset of that country. Ecuador cacao, especially the "arriba" variety, has a distinctive flavor and is in demand for flavoring blended cocoa and chocolate products. A manufacturer accustomed to use arriba cacao to produce a distinctive flavor will, of course, be willing to pay a higher price for this product to continue his blend. Ecuador began to "valorize" its crop in 1911, following a period of over-production and low prices, the original plan being to store the product when prices were low and to unload at more favorable periods. Hamburg interests financed this project, but the connection proved unfortunate for the Ecuadorians. The war terminated the German connection, and eventually American capitalists undertook this project through the agency of the Mercantile Bank.<sup>2</sup>

The American rubber companies have secured their supply of raw materials by investing in rubber plantations in the East Indies. The United States Rubber Company has approximately ten million dollars in rubber plantations on the east coast of Sumatra. The Goodyear Tire and Rubber Company and the Inter-

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<sup>2</sup> For a survey of investments in Latin America see Department of Commerce, "Investments in Latin-America," Special Agent Series, No. 169 (1918).

## COMMERCIAL POLICY

continental Rubber Company have also invested in rubber plantations in the East Indies. The Mexican Crude Rubber Company has its rubber plantations in the Federated Malay States.

(5) *The loan of American private capital to foreign Governments.*—In the Caribbean American capitalists have not only invested enormous sums in private enterprises and concessions, but they have also assisted in financing Governments. Perhaps a more interesting example of this form of American activity abroad is our share in financing China. During the Taft Administration the President and Philander C. Knox, his Secretary of State, sought to make the influence of the United States in behalf of the "open door" more effective by having American capital share in the development of China. The United States was a party with Great Britain, France, and Germany in the Four-Power Loan for the Hukwang railways (May, 1911). American capitalists also shared in the Currency Loan Agreement with the Chinese Government. In 1913 American financial interests arranged to participate in the Six-Power Loan to China, but because some of the powers were actuated by ulterior motives which seemed inimical to China's sovereignty, President Wilson soon after his inauguration withdrew the support of the American Government and American capitalists withdrew from the group.<sup>3</sup>

The cases of American investments abroad cited as illustration under the above classifications of commercial activities, it should be remembered, in no sense exhaust the list. A compilation of American investments abroad

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<sup>3</sup> Stanley K. Hornbeck, *Contemporary Politics in the Far East* (1916), p. 391 *et seq.*



## • COMMERCIAL ACTIVITIES ABROAD

is not necessary for the purpose of this discussion. It is sufficient to note their nature and to know that they are substantial, particularly in the western hemisphere. Taking the world over, however, they are not so large as the foreign investments of Great Britain, France, or Germany.<sup>4</sup>

American commercial activities abroad are national assets which should be encouraged. It is distinctly valuable both to the United States and foreign peoples to have our commercial interests export their goods and capital. But here, as in domestic trade and investment, some degree of regulation and control is desirable from a public standpoint. American commercial activities should be regulated and controlled in such manner as will prevent them from involving this country in strife with other peoples. From the claims of some business men one suspects that they hold to an ethical code in foreign business which differs from that to which they submit at home, and that when they leave the shores of their country, they feel justified in engaging in any practice that will accomplish their end. Although they object to Government regulation, they harbor the conviction that if they get into trouble with a foreign Government, the diplomatic machinery of the United States will save them.

Several cases where the possibility of international complications makes regulation desirable may be indicated. In the exportation of our natural resources it would not be just in every case to charge all that the market would bear. Those parts of the world today that need raw materials most for reconstruction are least able to pay. Belgium and France have given not only the lives of their citizens, but their natural resources in

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<sup>4</sup> See Chapter XVII

the cause of democracy. Mines have been depleted, forests cut down, productive land destroyed. It would be unjust to permit organized business interests of the United States, which have suffered comparatively little in the war, to use their economic advantage to exact high prices from impoverished peoples.

Unfair competition and discriminations are as objectionable in export as in domestic trade, but are infinitely more difficult to handle. To forbid our exporters to do things which competitors do with impunity is manifestly unfair. As will be suggested later, this is an international question, but even regulation by the United States Government would afford a basis for negotiation which might ultimately lead to adjustment by treaty.<sup>5</sup>

Factories established abroad may lead to undesirable complications, although they are usually in countries where municipal law has reached such a stage of development that local regulation is sufficient. But if these regulations seem harsh to American interests, they may appeal to the home Government to interfere in their behalf. The threatened monopolistic control of the world's meat supply by the American packing concerns has disturbed the peoples of Uruguay, Argentina, and Australia. Control of prices and the suppression of competition have been charged.<sup>6</sup>

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<sup>5</sup> The United States has entered into conventions for the protection of industrial property with some 19 countries. See Department of Commerce, *Trust Laws and Unfair Competition* (1915), p. 697.

The Federal Trade Commission's "Report on the Meat Packing Industry" (1918) says (p. 35): "That this combination and conspiracy to limit the supplies of meat to the United States and our allies has continued to the present time, and with pernicious results, is shown by a statement made in 1917 by the president of a committee appointed by the Argentine Chamber of Deputies to investigate the cost of necessities:

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Other complications arise from the investment of capital in the development of the natural resources of foreign countries for the reason that these operations frequently take place among peoples with weak Governments. It is in such situations that imperialism has flourished best. Governments, that of the United States much less than European Governments, have taken an active interest in obtaining for their citizens "concessions" in backward countries and in enforcing their claims subsequently, often without a careful consideration of the equity of the case. In America the policy of the Government has frequently been that of letting American financial interests alone. But this policy instead of solving the problem has resulted in more trouble than an open imperialistic policy. In countries where Governments are weak, and this means a very considerable portion of the earth's surface, strong financial interests have an unfair advantage. If they cannot obtain the concessions they desire from the existing Government, they foment and finance a revolution, and thus establish those in power who are favorable to their interests. Interesting revelations would come from an investigation of the relation between foreign financial

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"They [the combination of packing companies] suppress real competition, maintaining it only in appearance, and they determine by common agreement, the prices which are to be paid to producers, reserving to themselves the right to sell at the highest price possible in order to obtain enormous profits which do not remain in the country. Thus it is that these freezing companies have been able to show in their latest balance sheets more than 100 per cent of profits, that is to say, that in a single year they have made more than their capital. . . . Here the freezing companies contract with the foreign purchaser, who to today, owing to circumstances of the war, a single party, since the Allied Governments have concentrated their purchases in a central office — and having made their agreements at prices which they raise as high as possible, they purchase the live stock from the producers, imposing upon them the law of the strongest."

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interests and revolutions in some of the countries of Latin-America.<sup>7</sup>

During recent years the greatest significance has attached to attempts to secure concessions to develop the oil fields near Tampica, Mexico. This contest illustrates how concessionaires, becoming entangled in political disturbances, embroil international relations. The Waters-Pierce Company, a branch of the Standard Oil Company, was the first to recognize the value of this field and to begin its development. Shortly thereafter an English capitalist, Sir Weetman Pearson, later Lord Cowdray, began a determined competition. Several years before he had rebuilt an old railroad in Mexico with the Mexican Government as an equal partner. In this way he had gained the friendship of President Diaz, who gave him very valuable concessions. He was given a concession for pipe lines and a railway. His property was exempted from local taxation and from export duties. These favors under severe competitive conditions would probably have been decisive. However, before the Mexican Congress ratified the concession granted to Lord Cowdray, Diaz was overthrown. Madero was said to be favorable to the Americans, while Huerta, who shortly succeeded to power, was supposed to be acceptable to the British Company. These changes in political control in Mexico were not wholly unconnected with the rival financial interests, and the result only illustrates the need of an affirmative policy to regulation and control.

The complications that follow from the unregulated lending of private capital to weak Governments is well illustrated by the experience of the United States with

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<sup>7</sup> Cf. *American Banana Company vs. United Fruit Company*, 160 Fed. 184; 166 Fed. 261; 213 U. S. 347.

## COMMERCIAL ACTIVITIES ABROAD

the Dominican Republic and Haiti. In 1907 the United States entered into a treaty with the Dominican Republic under which we undertook to establish a receivership of the Dominican customs and to collect and apply the revenues to the expenses of the Republic and the liquidation of the debt contracted with foreign capitalists. "During disturbed political conditions in the Dominican Republic," the treaty recites,<sup>8</sup> "debts and claims have been created, some by regular and some by revolutionary governments, many of doubtful validity in whole or in part, and amounting in all to over \$30,000,000, nominal or face value." In Haiti the "pecuniary claims of foreign corporations, companies and citizens or subjects" finally forced the United States to establish a protectorate and undertake to supervise the finances of the country.<sup>9</sup> Proper supervision and regulation of foreign investments would have made unnecessary these receiverships the administration of which the United States has been forced to undertake.

Such situations as those reviewed, and there are many others, require preventive measures. Instead, the imperialists have aggravated them and the advocates of a let-alone policy wait until the burning of their neighbor's house threatens their own before they try to put out the fire. One position is as undemocratic as the other. The facts must be faced as they exist. Imperialism has made adjustments, but in doing so has often done injustice to weak peoples, and when diplomacy failed, war has followed. Many of the causes of

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<sup>8</sup> Malloy, *Treaties, Conventions, International Acts, Protocols and Agreements between the United States and Other Powers*, 1776-1909, vol. i, p. 418.

<sup>9</sup> Treaty between the United States and Haiti, proclaimed May 3, 1916. Treaty Series No. 623.

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the Great War are to be sought, not in Europe, but in the economically backward parts of Asia and Africa. The anti-imperialists have frequently attributed to foreign Governments a sovereignty which they in reality did not have the power to enforce. They have also assumed that we could surrender responsibility for the activities abroad of American business interests, but this cannot be done. Just as the export of goods and capital from the United States is inevitable, so sooner or later will our national interests be involved. The solution will not come by ignoring the conditions or by complaining about their evil effects. It is our duty not only to assist actively in developing the backward parts of the world, but also to establish such governmental regulation of the activities of our commercial interests abroad as will reduce friction to a minimum and will make our boasted democratic ideals a reality in our economic relationships.

It is inconsistent with democratic principles to pursue unfair trade methods, to monopolize raw materials, to seek special tariff advantages by means of special bargaining, to permit colonial monopoly, and to employ predatory aggressive methods in foreign investments. The economic weapon may be used in defense or in conjunction with other nations to enforce the common will of mankind, but predatory methods of trade and finance are never to be justified. The American people should see to it that their Government does not pursue an imperialistic policy and that it establishes such machinery for the regulation of American commercial activities as will prevent them from embroiling the nation with other peoples. It is only by doing this that we can prepare ourselves to be a part of a democratic League of Nations.

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The principle of regulating commercial interests abroad is not wholly unfamiliar to the American public. In the Export Association Act passed in 1918 the sections which are most significant are not those removing the prohibitions of the anti-trust laws from export association, but those relating to unfair competition and regulation. The law<sup>10</sup> empowers the Federal Trade Commission to prevent "unfair methods of competition used in export trade against competitors engaged in export trade, even though the acts constituting such unfair methods are done without the territorial jurisdiction of the United States." It provides for regulation of the associations "engaged solely in export trade." The associations are required to file with the Commission the principal facts of their business, and, if requested, information as to its "organization, business, conduct, practices, management, and relation to other associations, corporations, partnerships, and individuals." The law also contains methods of procedure and penalties. But if this regulation is good for export business carried on through export associations organized under this Act, it is good for all export trade.

During the war there was an attempt to regulate the investment of capital which furnishes an uncomfortable precedent to those who advocate the hasty abandonment of all war-time control. The Capital Issues Committee was created by an act of Congress approved April 5, 1918, and took over the work which for some months had been done by an informal body created by the Federal Reserve Board. Its work, it states in its report,<sup>11</sup> was "the rationing of capital for use only by

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<sup>10</sup> Quoted in full in Appendix VIII.

<sup>11</sup> Report of Capital Issues Committee, dated December 2, 1918, submitted to the House of Representatives.

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those enterprises and industries which served some immediate and definite military or economic need." "It was the theory of the law creating the Committee," the report continues, "that every dollar of private credit was an asset of the Government which must not be put to a non-essential use during the war." This experience<sup>12</sup> disposes at least of the objection that it is not practicable to regulate the investment of capital. If it can be done for war purposes, so can it be done for the needs of peace.

These fragmentary and temporary measures of control are, it need hardly be said, but suggestions of the regulation which might be worked out. All that is necessary is the extension of the same regulatory control to American business abroad as it submits to at home. In the vast majority of cases its transactions are just and fair. Regulation would not only protect the Government from complications caused by the unscrupulous few, but it would protect the many who are trying to play the game fairly. Coöperation between business and Government in the interests of harmonious world relations will serve the interests of all.

The American people's right to control the activities of their commercial interests abroad is based in part on the fact that, as the world is constituted today, unregulated business interests sooner or later involve the national interest. Our Government is called in to adjust a situation which it had no share in making. Here, as in all the great economic problems of the world, the need is for machinery that will remove the causes of conflict or prevent them from arising.

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<sup>12</sup> For an account of the operations of the Capital Issues Committee see, in this series, W. F. Willoughby, *Government Organization in War Time and After*.



## COMMERCIAL ACTIVITIES ABROAD

Any measure of regulation established by the American nation alone would have its limitations. The commercial methods of foreign rivals are always a factor to be considered, and over these our Government has only such control as may come from negotiations. The regulations that may be imposed by our Government are always limited by the competitive position of Americans. Too drastic measures would drive them from the field. If backward countries are to be abandoned to exploitation with only a shadowy international control, there is little that a single nation can do, for merely to force its commercial interests to withdraw in no way removes the difficulty. It is a case with which we are not unfamiliar in the United States, where conflicting state laws, particularly on social matters, have retarded progress and where there was an obvious need for a uniform Federal law. In the limitations that may confront a democratic nation earnestly trying to establish fair dealings lies one of the most conclusive arguments for international regulation.

But these limitations furnish no excuse for the refusal of individual nations to democratize their economic activities. Reform should begin at home. The political democracies which waged war against autocratic Central Europe have in their midst commercial autocracies which are governed by the same ambitions of dominion as governed Germany. Fortunately, there is a strong movement contesting their influence which is insisting that industry, trade, and finance shall submit to democratic control. It is this influence that is preparing the world for a League of Nations. It will not do harm to say again that a democratic league cannot exist unless it be composed of nations democratic to the core.



**PART III**

**WORLD**

**COMMERCIAL POLICIES**

Our League looks to a union of the democratic nations of the world, to the will of the peoples, expressed through their Governments, as its basis and sanction. It looks to the establishment of new Governments by popular choice and control. It is to be founded on justice, impartially administered, and not on the interests of Kings or Emperors or dynasties. It is to rise as a structure built upon the ashes of militarism, and it is to rest on the pillars of justice and equality and the welfare of peoples. . . .

The League does not contemplate the slightest interference with the internal government of any country. The League does not propose to interfere, except where the claims of right of one country clash with the claims of right of another. To submit such claims of right to an imperial tribunal no more interferes with the sovereignty of a nation than the submission of an individual to a hearing and decree of court interferes with his liberty. The League is merely introducing into the world's sphere, liberty of action regulated by law, instead of license uncontrolled except by the greed and passion of the individual nation.

EX-PRESIDENT TAFT at Madison, Wisconsin,  
November 9, 1918.

My conception of the League of Nations is just this — that it shall operate as the organized moral force of men throughout the world, and that whenever or wherever wrong and aggression are planned or contemplated, this searching light of conscience will be turned upon them, and men everywhere will ask, "What are the purposes that you hold in your heart against the fortunes of the world."

PRESIDENT WILSON at Paris,  
December 21, 1918.

## CHAPTER XII

### WHERE NATIONAL CONTROL BREAKS DOWN

Where international control begins—Anarchy in international trade—How foreign trade should not be promoted—Bounties—Imitating trade-marks and designs—Depression of prices—Espionage—Predatory price cutting—Discriminations in transportation—Efforts of nations to correct evils—How nations handle unfair practices within their jurisdiction—In the United States—The Courts—Federal Trade Commission—Interstate Commerce Commission—Attempts to control unfair competition by international action—Brussels Sugar Convention—International agreements concerning industrial property and unfair competition—International trade and commerce commissions—The penalty for refusal to act.

In the commercial affairs of the world there comes a time when national control must in some degree yield to international control. Even complete democracy within individual nations, desirable as it is, is not sufficient. Nations which fully democratize their internal life will still find themselves confronted by problems which singly they will not be able to solve but which will require their collective effort. Today there are relations between nations which are not adequately regulated by either law or custom. A certain amount of independence of action must be surrendered by individual nations in order that these problems, which are world-wide and which no one nation in and of itself can solve, may be considered by an international organization looking at them from the world point of view. The economic life of the world has in many ways burst the confines of the individual state. In so far as it has, it is without a coextensive control. Nations have merely accentuated the fierceness of individual competition in world trade and

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financing. To uncontrolled individualism has been added an uncontrolled nationalism. This situation points conclusively to the necessity for an international organization vested, even if in the most rudimentary form, with the essential elements of government.

In trade between nations is to be found a striking instance of the inadequacy of national control. In the struggle for the world's markets the evils resulting from the unrestrained competition of private interests, only too often supported and urged on by aggressive and imperialistic Governments, have been most prominent. It is in international affairs that the let-alone policy, *laissez faire*, has had the freest hand. The absence of a regulative force arbitrating between conflicting interests has resulted in economic anarchy. It has permitted ruthless, bitter, unfair competition for foreign markets, open and concealed bounties, discriminations, rebates and unfair practices in transportation. No international body existed before the war that could lay down standards of trade and competition or that could investigate and give publicity to unfair practices. Each nation pursued such practices as it dared or as seemed necessary in furthering its own exclusive interests.

Foreign trade is an important and necessary part of the world's economic life. There are legitimate ways in which a nation may promote its export business<sup>1</sup> and the war has made it doubly necessary that the nations adopt them. Industries must be kept running both because labor needs employment and because only by producing wealth can the wastage of war be repaired. A period of depression, low wages, and unemployment may bring grave social and political disturbances. But

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<sup>1</sup> See Chapter IX.

## WHERE NATIONAL CONTROL BREAKS DOWN

in the plans for trade promotion the national idea is over-emphasized. The unregulated contest for markets is beginning again. Can the world ignore the international element with impunity? In domestic affairs nations have recognized the necessity of adopting means of preventing unfair discriminations in trade and transportation. In international affairs a similar regulation is essential. One of the results of the war should be a frank recognition of the fact that there are some ways in which export trade should not be promoted.

Only brief reference can be made to the nature and variety of unfair methods employed in foreign commerce. Among the best known are bounties, both direct and indirect, on production and exportation. Bounties may be concealed in drawbacks. Drawbacks are intended to refund to exporters the customs duties they have paid on raw or semi-manufactured materials. If they do no more than this, they are entirely proper. They may be devised to give the exporter more than compensation and thus become a concealed bounty. Ship subsidies may be granted by a Government on the understanding that lower shipping freights or preferential service will be given to citizens of the country in question.

Counterfeiting and imitating the goods of a foreign competitor are not infrequent in foreign commerce. A manufacturer may build up by advertising a good will of great value in a trade-mark, a design, or a carton. His foreign customers come to associate quality with his distinctive marks. Among uneducated peoples the label on a package, when once it has become familiar to the eye of the purchaser and he has learned that it is the brand of a good article, acquires a peculiarly great importance as a selling factor. Into this market there

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may come an exporter from another country who imitates the established trade-mark or design and attempts to pass his goods off for those of the other.

The artificial depression of prices by organized buyers is another unfair practice in trade between nations. In the United States, for example, the individualistic character of our industry in some cases enabled foreign buyers to play one producer off against another and thus depress prices. The copper industry at times suffered from the well laid plans of German metal interests. The business was demoralized and American resources sacrificed.<sup>2</sup>

Espionage may be carried out through foreign banks. It is asserted frequently that foreign banks reveal to their home connections details they have learned from patrons of other nationalities. The president of an American locomotive company testified before the Federal Trade Commission that when he had to deal through a German bank he had evidence that his German competitors were informed completely as to American production costs and other business secrets.<sup>3</sup>

Unfair price cutting for the purpose of destroying a competing industry or for the purpose of putting a competitor out of business clearly raises an international question. Each country may handle this practice within its own jurisdiction by anti-dumping legislation,<sup>4</sup> but some countries have no such law. Countries that have no industries to protect may welcome "dumping" and the effect it may have on a foreign firm is of little concern to them. Unfair competition is likely to take place in parts of the world where local laws which condemn

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<sup>2</sup> Federal Trade Commission, *Coöperation in American Export Trade*, vol. i, p. 361.

<sup>3</sup> *Ibid.*, p. 61.

<sup>4</sup> See Chapter VIII.



## WHERE NATIONAL CONTROL BREAKS DOWN

it are absent. But it is just such situations as these that cause international complications and persuade Governments to extend their arm in the defense of their citizens. Many other unfair practices might be mentioned. They include the inducement of breach of contract, "full-line forcing," bribery, threats, disparagement of goods, false and misleading advertising, fighting brands, and boycotts. These examples will serve to suggest the sort of methods that are undesirable in developing trade between nations.

Not less objectionable than unfair methods of competition between nations are discriminations in communication and transportation. Steamship lines and cables are not looked upon as international public utilities but as national assets. It is certain that their control has frequently been used to the advantage of the country that controls them. Under the strong nationalistic influences which have prevailed this was to be expected in some degree. By means of cable control trade secrets have been revealed to competitors and orders interfered with.

Special railroad rates allowed by some countries on goods destined for export is a questionable practice. If not undesirable in all cases, it is susceptible of unfair use, for it is in the nature of a bounty. More serious are discriminations in ocean transportation, the granting of preferences in rates and services to goods of the country owning the ships. The control of a merchant marine and strategic points on the important trade routes where good harbors, fresh water, bunker coal or oil may be furnished has been of great material advantage to trading nations in the past. In addition to the deliberate discriminations in rates, cargo space, and routing, which

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were frequent enough, there were many unintentional discriminations against nations which used lines of merchant vessels controlled by others. British, German, and Japanese vessels naturally adapted their going and coming to the needs of their own traders, and when the transportation company had a direct interest in the trading, it operated not as a common carrier but as a competitor.

Individual nations have properly tried to protect themselves against unfair trade and transportation practices. Countervailing duties have been used against bounties, anti-dumping legislation against price cutting, bargaining tariffs and retaliation against other practices. Negotiations have resulted in separate agreements between nations for the protection of industrial property. But it cannot be pretended that action by single nations or bargaining among them, two by two, will solve the problem. The problem is essentially international in character. Its most serious features relate to competition in economically backward countries where the interests of great trading nations clash most harshly. In such places the local Government furnishes no protection and the imperialistic tendencies of their home Governments often merely help to embitter the traders' contest.

These practices, therefore, contribute to trade wars. They are a part of a system which holds that a nation's only means of protection is in its own economic and military power. Until nations can find protection and security in a just international organization, they will make trade plans and build ships with a view to winning trade wherever they can and by any method they care to adopt. So the Allies planned at the Paris Confer-

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ence in June, 1916.<sup>5</sup> Happily military victory has made this plan for trade war unnecessary, but it should serve as a warning. We must move forward to a position where foreign trade will be controlled in the interests of world peace and prosperity. One of the chief tasks before the democracies of the world is to introduce democratic principles into foreign commercial relations.

In considering methods for preventing and regulating unfair practices in international trade, the methods by which nations have handled similar problems within their own borders furnish analogies which may be considered with profit. All the leading countries of the world have laws dealing with business competition which suggest valuable precedents to guide in the regulation of trade between nations,<sup>6</sup> but only those of the United States will be considered here. These are particularly significant because of the federal character of the American Union. At common law many unfair practices were held unlawful. They have been classified as follows:<sup>7</sup>

(a) Inducing breach of competitors' contracts; (b) enticing employees from the service of competitors; (c) betrayal of trade secrets; (d) betrayal of confidential information; (e) appropriation of values created by competitors' expenditures; (f) defamation of competitors and disparagement of competitors' goods; (g) misrepresentation by means other than words; (h) false claims to testimonials; (i) intimidation of competitors' customers by threats of infringement suits; (j) combinations to cut off competitors' supplies or to destroy their market; (k) intimidation, obstruction, and molestation of competitors or their customers; (l) preventing the sale of competing goods by demanding contracts for exclusive deal-

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<sup>5</sup> Appendix II.

<sup>6</sup> Department of Commerce, Bureau of Corporations, *Trust Laws and Unfair Competition* (1915), Chapters 5 and 10.

<sup>7</sup> *Ibid.*, p. 334.

## COMMERCIAL POLICY

ing; (m) bribery of employees; (n) competing with purchaser after the sale of business and good will; (o) passing off the goods of one manufacturer or dealer as those of another.

Particularly voluminous are the decisions of both British and American courts<sup>8</sup> forbidding the counterfeiting and simulation of goods, a practice in international trade which has been a cause of so much irritation.

Under the Sherman Anti-Trust Act also the American courts have prohibited unfair methods of competition. The Act has been used primarily to prevent monopoly by means of agreement among competitors to suppress competition among themselves, but it has been found that a monopoly may also be brought about by unfair methods against competitors. The courts have, therefore, condemned the following practices as "unfair" and tending to restrain trade: price cutting, the use of "fighting ships," "bogus independents," exclusive dealing, inducing breach of competitors' contracts, enticing away employees, bribery and espionage, boycotting and black-listing by trade associations, price discriminations, and coercion, threats and intimidations.<sup>9</sup>

Experience in handling unfair methods of competition in the United States led finally to the establishment of the Federal Trade Commission which in addition to wide powers of investigation has power to prevent unfair methods of competition. Section 5 of the law creating the Commission reads in part:

That unfair methods of competition in (interstate) commerce are hereby declared unlawful.

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<sup>8</sup> H. D. Nims, *The Law of Unfair Competition and Trade-Marks* (1917) and cases there cited.

<sup>9</sup> Department of Commerce, Bureau of Corporations, *Trust Laws and Unfair Competition* (1915), Chapter 8.

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The commission is hereby empowered and directed to prevent persons, partnerships, or corporations, except banks, and common carriers subject to the acts to regulate (interstate) commerce, from using unfair methods of competition in (interstate) commerce.

One of the chief arguments in favor of the establishment of an administrative Commission was that unfair competitive methods could be prevented before they had begun to bear fruit in monopoly.

No unfair practices arise in international commerce that cannot be paralleled by cases arising in the interstate commerce of the United States, but before the obvious conclusion is pointed out, the method by which transportation discriminations have been prevented in the United States between shippers and between states should be considered. The Interstate Commerce Commission, limited in its powers at first, now a powerful regulative force in interstate commerce, is suggestive of the way in which an international commerce commission might grow.

One of the powers delegated by the several states to the Federal Government in 1787 was the power "to regulate commerce with foreign nations, among the several States, and with the Indian tribes." The unanticipated development of the facilities of transportation, particularly the railroads, has made this one of the most far-reaching of all the clauses of the Constitution. Discriminations and rebates on the railroads led to the establishment in 1887 of the Interstate Commerce Commission.<sup>10</sup> The remedy that the American Government

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<sup>10</sup> An adequate study of the development of the Commission can be made only by reference to its decisions and the decisions of the Courts, especially the United States Supreme Court. Cf. Judson on *Interstate Commerce*.

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tried at that time was the enactment of legislation prohibiting the undesirable practices and the creation of a Commission to assist in its enforcement. Strong means of enforcement were at first not provided. The principal dependence was placed upon publicity. The Commission was given power to compel testimony, to examine the books of the railways, to hear complaints, and to recommend certain courses of action. If the railways did not comply, it could institute suit before the Federal courts to enforce obedience to its suggestions. For a long time the Commission's work was not decidedly effective, because inadequate provision was made for it to compel testimony and to enforce publicity, and the court procedure was too slow; but undoubtedly it performed, even at this stage, an important function in popularizing the idea of national control. By the acts of 1906 and 1910 it was given administrative authority and power to put its decrees into effect, subject to judicial review.

The experience of the Interstate Commerce Commission is significant as a precedent for international action because of the federal nature of our Government. Not only has it adjudicated many serious cases between railroads and shippers involving rebates and discriminations, but it has acted as arbiter in disputes between states. The states retain jurisdiction over strictly intrastate transportation, and in most cases have established state railroad commissions to regulate this traffic. They are jealous of their jurisdiction against the Federal Government just as nations are jealous of theirs against international control. But gradually the American states have been forced to yield their jurisdiction in the interests of uniformity and fair competition. The Interstate Commerce Commission has acted as arbiter and

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settled cases which in international affairs today would probably be decided by war.

Innumerable cases have been passed on by the Interstate Commerce Commission preventing discriminations and rebates that favored one shipper over another. The most important cases for our purpose, however, are those by which the Commission prevented discrimination between states. One of the most extreme cases, but one which indicates clearly the value of Federal control, is the case of Houston and Texas Railway against the United States.<sup>11</sup> In this case the carriers made rates out of Dallas and other Texas points into eastern Texas which were much lower than those they granted to shippers from Shreveport, in Louisiana, into Texas. The rate from Shreveport into Texas (the interstate rate) had been held to be reasonable. The rate within Texas which the Interstate Commerce Commission held to be an unjust discrimination was maintained under authority of the State of Texas. It was necessary either to reduce the interstate rate, increase the intrastate rate, or adjust the two to a basis of equality. The Interstate Commerce Commission held that the railroads were relieved from further obligation of observing the intrastate rates and that they might increase them in order to remove the forbidden discrimination. On appeal it was claimed that neither the Interstate Commerce Commission nor even Congress, whose agent it was, had power to regulate traffic solely within the state. The United States Supreme Court sustained the Interstate Commerce Commission. Justice Hughes said in rendering the decision:

It is unnecessary to repeat what has frequently been said by this court with respect to the complete and paramount char-

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<sup>11</sup> *Houston & Texas Railway vs. U. S.*, 234 U. S. 342 (1913).

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acter of the power confided to Congress to regulate commerce among the several States. It is of the essence of this power that, where it exists, it dominates. Interstate trade was not left to be destroyed or impeded by the rivalries of local governments. The purpose was to make impossible the recurrence of the evils which had overwhelmed the Confederation and to provide the necessary basis of national unity of insuring "uniformity of regulation against conflicting and discriminating state legislation." By virtue of the comprehensive terms of the grant, the authority of Congress is at all times adequate to meet the varying exigencies that arise and to protect the national interest by securing the freedom of interstate commercial intercourse from local control. . . .

The fact that carriers are instruments of intrastate commerce, as well as of interstate commerce, does not derogate from the complete and paramount authority of Congress over the latter or preclude the Federal power from being exerted to prevent the intrastate operations of such carriers from being made a means of injury to that which has been confided to Federal care. Wherever the interstate and intrastate transactions of carriers are so related that the government of the one involves the control of the other, it is Congress, and not the State, that is entitled to prescribe the final and dominant rule, for otherwise Congress would be denied the exercise of its constitutional authority and the State, and not the Nation, would be supreme within the national field. . . .

We find no reason to doubt that Congress is entitled to keep the highways of interstate communication open to interstate traffic upon fair and equal terms. That an unjust discrimination in the rates of a common carrier, by which one person or locality is unduly favored as against another under substantially similar conditions of traffic, constitutes an evil is undeniable; and where this evil consists in the action of an interstate carrier in unreasonably discriminating against interstate traffic over its line, the authority of Congress to prevent it is equally clear. . . .

We are not unmindful of the gravity of the question that is presented when state and Federal views conflict. But it was recognized at the beginning that the Nation could not prosper if interstate and foreign trade were governed by many masters,



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and, where the interests of the freedom of interstate commerce are involved, the judgment of Congress and of the agencies it lawfully establishes must control.

In a later decision<sup>12</sup> the Supreme Court of the United States summed up the findings of the Shreveport case in the following words:

1. Under the commerce clause of the Constitution Congress has ample power to prevent the common instrumentalities of interstate and intrastate commerce, such as the railroads, from being used in their intrastate operations in such manner as to affect injuriously traffic which is interstate.

2. Where unjust discrimination against interstate commerce arises out of the relation of intrastate to interstate rates this power may be exerted to remove the discrimination, and this whether the intrastate rates are maintained under a local statute or by the voluntary act of the carrier.

3. In correcting such discrimination Congress is not restricted to an adjustment or reduction of the interstate rates, but may prescribe a reasonable standard to which they shall conform and require the carrier to adjust the intrastate rates in such way as to remove the discrimination; for where the interstate and intrastate transactions of carriers are so related that the effective regulation of one involves control of the other, it is Congress, and not the State, that is entitled to prescribe the dominant rule.

4. It is admissible for Congress to provide for the execution of this power through a subordinate body such as the Interstate Commerce Commission, and this it has done by the Act to Regulate Commerce.

5. Where in the exercise of its delegated authority the Commission not only finds that a disparity in the two classes of rates is resulting in unjust discrimination against interstate commerce but also determines what are reasonable rates for the interstate traffic, and then directs the removal of the discrimination, the carrier not only is entitled to put in force the interstate rates found reasonable but is free to remove the

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<sup>12</sup> *Illinois Central Railway Company vs. Public Utilities Commission*, 245 U. S. 493, 505-7 (1917). Cf. *American Express Company vs. Caldwell*, 245 U. S. 617 (1916).

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forbidden discrimination by bringing the intrastate rates to the same level.

These remarks of the Supreme Court of the United States argue not only for a unified regulation of commerce among the American states but also among the nations of the world. Nations individually, no more than the states, can determine what rules shall govern in commerce among them. There must be a common authority which acts as arbiter.

International action to regulate competition between nations, however inadequate, is not wholly lacking. The most conspicuous and successful is the Brussels Sugar Convention which stopped the direct and indirect bounties on European sugar. In the 80's bounty-fed sugar on the continent of Europe became more and more serious as an international problem. Discriminations were threatened. Negotiations were instituted. It was not until March 5, 1902, however, that an agreement was reached. In the Sugar Convention of that date Germany, Austria-Hungary, Belgium, Spain, France, Great Britain, Italy, The Netherlands, and Sweden agreed to suppress direct and indirect bounties on the production and exportation of sugar and to establish no bounties during the term of the treaty. It was agreed that the import duties on sugar imported by the signatories should not exceed the internal taxes on sugar by more than six francs per 100 kilograms for refined sugar or 5.50 francs for other sugars. In another article the signatories agreed to levy an import tax equal to the bounty on sugar imported from countries granting a bounty. A permanent Sugar Commission and Bureau at Brussels was established charged with administrative duties and with the power to gather and publish in-

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formation. Russia became a party to the convention in 1907. On March 17, 1912, the Convention was extended for five years, but while one or two new countries were added, Italy and Great Britain withdrew.

The fourth International Congress of American States, which met at Buenos Aires in 1910, adopted conventions designed to protect inventions, patents, trade-marks, and trade names. Infringement of the rights of citizens of any signatory country was made punishable according to the laws of the country in which the offense was committed. Two international bureaus were established for the registration of trade-marks — one at Havana to register those coming from North and Central America, and one at Rio de Janeiro to register those from South America. A trade-mark registered in one country was to have priority in all the countries for a specified period.<sup>13</sup>

The most important of these agreements is that of the International Union for the Protection of Industrial Property, which was formed in Paris in 1883. With succeeding additions and modifications this agreement was signed at Washington in 1911 by representatives of all the leading nations. It provides:<sup>14</sup>

Art. 2. The subjects or citizens of each of the contracting countries shall enjoy, in all other countries of the Union, with regard to patents of invention, models of utility, industrial designs or models, trade-marks, trade names, the statements of place of origin, suppression of unfair competition, the advantages which the respective laws now grant or may hereafter grant to the citizens of that country. Consequently, they shall

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<sup>13</sup> Sen. Doc. 1063, 62d Cong., 3d Sess., *Treaties, Conventions, International Acts, Protocols, and Agreements, between the United States of America and Other Powers*, vol. iii, p. 354.

<sup>14</sup> Department of Commerce, Bureau of Corporations, *Trust Laws and Unfair Competition* (1915), p. 697.

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have the same protection as the latter and the same legal remedies against any infringements of their rights, provided they comply with the formalities and requirements imposed by the National laws of each State upon its own citizens. Any obligation of domicile or of establishment in the country where the protection is claimed shall not be imposed on the members of the Union. . . .

Art. 10. All the contracting countries agree to assure to the members of the union an effective protection against unfair competition.

The German courts have held under this provision that a New York company was entitled to the protection of the German unfair competition law even though it had no branch establishment in Germany.

An international agreement for the prevention of false indication of the origin of goods was entered into at Madrid in 1891, and revised at Washington in 1911, by a number of nations, and an agreement for the protection of works of literature and art was made at Berne in 1886 and revised at Paris in 1896 and 1908. The United States is not a signatory of this last agreement.

The most constructive proposal that has come from an authoritative source for a greater degree of uniformity and for better means of enforcement was that of the Sixth International Congress of Chambers of Commerce and Commercial and Industrial Associations which met at Paris in June, 1914. A special report was made to this Congress suggesting that it undertake to secure international action for the suppression of unfair practices on the basis of the following programme:<sup>15</sup>

### 1. LEGISLATION:

(a) The general adoption internationally of the French system of article 1382 of the Civil Code.

(b) Recognition of unfair competition in all countries as a

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<sup>15</sup> *Ibid.*, p. 702.

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penal offense, in order to permit the public ministry to initiate action.

### 2. PROCEDURE:

Installation at Berne of a service for the suppression of unfair competition, whose duty it shall be (a) to furnish information to merchants regarding everything that relates to bringing suit in any tribunal of a country signatory to the conventions of Paris, Brussels, and Washington; (b) to notify the public ministry, that has jurisdiction, of cases of unfair competition.

The subcommittee on unfair competition in its report recommended that every nation should make an effort to render efficacious the resolutions of the Washington convention and proposed that the Congress should restrict itself to one special phase of unfair competition, *viz*, corruption and corruptive practices, which affect not only the countries where they are carried on, but international commerce equally, and therefore require international intervention for their suppression.

The subcommittee submitted resolutions to the effect that (1) the Congress should name a special committee to study the different phases of unfair competition which require legislative intervention; (2) the Congress should insist upon the necessity of special legislation, as uniform as possible, in all countries for the suppression of corruption. It recommended further that prohibited acts should be made punishable as a crime by the penal code of each country, but that civil prosecution should be allowed, which would enable the victims of bribery to procure compensation for injuries sustained. The Congress held that such special legislation should facilitate the prosecution of corrupt practices and should confer the right of initiative not only upon the public ministry, but also upon associations and individuals.

The proposals of this Congress were never put into effect as the great war broke out a few weeks later, but now that nations are ready to resume their search for methods of dealing with unfair practices in international trade, they may prove a valuable guide. The war experience added at least one constructive element. The inter-Allied control of shipping, food, credit, and

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raw materials demonstrated that nations could act together to achieve a common purpose which no one country could achieve alone.

Such international arrangements as have been discussed are not adequate. They have very clear limitations. They provide safeguards against certain unfair practices in countries where municipal law is highly developed. But suppose a country has no law against unfair competition? No provision is made for regulating competition between citizens of two countries competing in a third economically backward country which has a more or less irresponsible government and which cannot be depended upon to enact and enforce adequate regulations. Nor is there any provision for regulating discriminations in communication and transportation. Yet it is in these cases that danger of serious conflict lies.

For the immediate future at least competition will remain the primary regulatory force in international commerce. How then shall it be made fair? In some cases the situation has been recognized as intolerable and international action has been taken. But these efforts have been piecemeal. They have not gone to the root of the difficulty. It is here that the federal experiences of the United States provide valuable guides for the international action. Either in the final treaty or in supplemental conventions the powers should agree to eliminate from international commerce unfair practices and discriminations and establish a commission or commissions under the League of Nations to investigate and give publicity to infringements of the international rules. Possibly there should be two commissions, one dealing with trade, the other with transportation, as in the United States. It will not be necessary (or desirable) to

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give an international commerce commission plenary power at first. That was not done in the case of the Interstate Commerce Commission, and as for the Federal Trade Commission, it was the continuation of the Bureau of Corporations which had for years done effective work as a mere investigatory body. What is important is that in establishing an international commission the nations should provide it with a set of general rules for the regulation of international commerce, should empower it to investigate and give publicity to infractions of these rules, and should permit aggrieved parties to lay their complaints before it. The interpretation and extensions of the rules would gradually establish a body of precedents, the nations would get more and more confidence in the commission, and it would gradually evolve into an organization which would effectively regulate international commerce. The necessity of such a commission is clear to anyone who knows the facts. National conservatism and national pride are holding us back. But the economic life of the world has far outrun our political organizations. The problems of international shipping and trade cannot be handled by nations singly. There must be a common body of rules and a central body to apply them. In establishing an international commission with power to regulate commerce and trade nations will not give up anything that the interests of the world warrant them in keeping. If such a forward step is not taken, what will be the penalty? Nations will return to the unrestricted, anarchistic trade methods of the past. Competition in many markets will be bitter. Each nation will feel it necessary to control colonies, to capture spheres of influence, to obtain concessions, and to build a merchant marine in order that its economic power may give it an advantage. No

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nation is going to rely on another to do it justice. The alternatives before the nations are return to the old unregulated competition of the past under which each nation gets all that it can according to standards of its own making, or, the preferable choice, the establishment of a body of rules on international trade and commerce and the creation of a commission under the League of Nations to interpret and ultimately to administer them.



## CHAPTER XIII

### AFTERMATH OF WAR-TIME CONTROL OF FOOD AND RAW MATERIALS

Food and raw materials as factors before the war in commercial policy—Foods—Significance of essential raw materials—Position of Germany with reference to raw materials—Of Japan—Of the British Empire—Of the United States—War-time control of food and raw materials by individual nations—In the United States—Food and Fuel Administrations—War Trade Board—War Industries Board—Shipping Control Committee—Examples of national control—Drift toward international control—Commission Internationale de Ravitaillement—Allied Maritime Transport Council—Inter-Allied Food Council—Inter-Allied Munitions Council—Inter-Allied Programme Committees on Raw Materials—Permanent effect of war-time experiences—Dangers from absence of international regulation—Possibilities of trade warfare suggested by war experiences and plans—Necessity for joint action among nations.

War-time experiences have disclosed with great clearness the importance in commercial policy of the control of food and essential raw materials. Prior to the war only in isolated cases did nations attempt to use their control of food and raw materials for bargaining or for other national ends. In the few cases in which this was done, it was for the purpose of exacting an export tax or regulating the price of a product. Chile had used her monopoly of nitrates to levy an export tax, which was paid ultimately by the foreign consumer. Brazil used her coffee monopoly in like manner. Germany limited the amount of potash that might be taken for export from her practically inexhaustible supply. A Government monopoly of camphor in Japan was used to limit production and to regulate prices. A semi-public sisal monopoly in Yucatan fixed the export price of that

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product. Other cases might be cited, but as a general thing foods and raw materials moved in international trade before the war without interference from government. As the war progressed, it became more and more evident that the economic as well as the military strength of the contestants would be a factor in the final decision. Governments began to concern themselves with feeding their peoples and with keeping their essential industries supplied with raw materials and fuel. First national, then international, machinery was developed to regulate and stimulate production and to direct distribution. The nations thus emerged from the war conscious, first, of the potential possibilities for bargaining and for trade wars which exist in the control of essential raw materials, and second, of the far-reaching possibilities of control of the world's economic forces by nations either singly or jointly. Before discussing the methods of control adopted during the war and the bearing they have on post-war policies, it will be helpful to survey briefly the position of the important nations with reference to the raw materials of the world.

Interest in the various foods and raw materials depends upon several factors, among which may be mentioned the utility of the article, its scarcity, the frequency of its occurrence in different parts of the world, the elasticity of supply, and the degree to which substitutes are available. In ordinary times the distribution of most of the foods presents no complex problem from an international standpoint. This is not because they are produced in excess quantities, but because substitutes are generally available for any particular food that may be scarce. Rye, for example, may be used instead of wheat, and fish may be substituted for meat.

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The problems here are mainly those of the stimulation of production and the facilitating of distribution within each country. But there are certain essential raw materials the production of which is confined to definite regions and the supply of which is strictly limited. It is the control of these materials which has an important bearing upon the determination of commercial policy. Coal, iron, cotton, and wool, for example, are absolutely indispensable to successful manufacturing operations, and their supply is unequally distributed. It is the presence of coal and iron that lends such significance to Lorraine and the Saar Valley. Copper is plentiful in but few countries, and the zinc control was an object of much scheming by the Germans before the war. The necessity for manganese, tungsten, and chromium in the steel industry has given these metals an importance out of all proportion to their total value. Nitrates are found only in Chile, and potash has been a practical monopoly of Germany. Jute is a monopoly of India, and the oil-bearing nuts and seeds are controlled by certain regions of the world. In view of these facts it becomes necessary to consider what sources of raw materials each of the important nations of the world controls.<sup>1</sup>

Germany is not rich in the essential raw materials. Within her territorial limits potash is the only product in which her position has been monopolistic, and now that Alsace is to return to French rule, this monopoly will cease, since the rich Alsatian beds of potash will pass out of German control. Before Germany lost Lor-

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<sup>1</sup> For a more extended discussion of the international rôle of mineral raw materials see, in this series, George Otis Smith, *The Strategy of Minerals*.

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raine, she needed to import only one-fourth of her iron consumption. With the Lorraine mines in French hands, she will have to import the greater part of her iron supply. She is not adequately supplied with manganese, tungsten, chromium, or molybdenum. During peace her copper came chiefly from the United States; her nickel ore from New Caledonia and Canada; her refined nickel from the United States; her tin from the East Indies and Bolivia; her lead from Spain and the United States; her aluminium from Switzerland and France; her antimony from China; and her zinc from Australia. Germany was dependent upon the United States for cotton, on the British Dominions for wool, on India for jute, and on Russia for flax and hemp. She imported great quantities of hides and skins, all her rubber, and fertilizers, such as phosphates and nitrates. For a large part of her timber she relied upon Russia and Austria-Hungary. She exported some coal, but imported almost all of her petroleum. Oleaginous products, such as copra, palm kernels, and the like, were imported from the British and other tropical possessions.

Before the war Germany had obtained economic control of the supply of certain raw materials under foreign sovereignties. One of the most conspicuous cases was her control of the zinc supply of Australia. Her experience in the war, however, made her eager to get political control over sources of raw materials, and it was this motive in part which inspired the extreme economic terms imposed by the Central Powers on the Ukraine and Rumania following the breakdown of Russia on the eastern front. The provisions of the Rumanian treaty showed how insidious were Germany's methods with reference to the Rumanian oil supply. Ukrainian resources are rich in iron, manganese, and

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other essential materials. The plan of Germany for a *Mittel Europa* was in part inspired by a desire to control politically the sources of raw materials essential to her industries. During the war, when *Mittel Europa* was temporarily in existence, Germany obtained flax and platinum from Russia, large quantities of iron ore from Sweden, magnesite and quicksilver from Austria, copper and chromium from Persia, and many other essential materials from the countries over which she held military or political control.

Japan also is poor in essential raw materials. Her position in the production of raw silk is a dominant one, and she has a monopolistic control of camphor. In Japan proper there are sufficient coal and petroleum to supply domestic needs. But all her industries, except silk manufactures, to some extent the pottery industry, and certain smaller industries, must draw their material from abroad. This is particularly true of her cotton, iron, and wool industries.

This situation is one of the reasons for the eagerness with which the Japanese have sought to control the resources of continental Asia. Korea and Manchuria are sources from which Japan is now drawing timber, iron, oil seeds, cotton, and other materials. The resources of China also have to some extent fallen under her control.<sup>2</sup> If she can control the raw-material supplies of continental Asia, her independence in many essential industries is assured.

The British Empire is self-sustaining with reference to many of the important raw materials, but in others depends upon foreign countries for its supply. Although

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<sup>2</sup> See Appendix III, for Japan's demands on China in 1915.

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Egypt, India, and other parts of the Empire produce an appreciable amount of raw cotton, the great cotton industries of Great Britain look to the United States for about three-fourths of their supply. On the other hand, in wool the Empire is rich. Of the world's exportable surpluses of raw wool of the finer grades, Australia, New Zealand, and South Africa control the greater part. India has a monopoly in jute, but the Empire imports all its silk, 85 per cent. of its flax, and more than half of its hemp.

The Empire probably has a sufficient supply of rubber. Brazil's monopoly in rubber has, in recent years, been broken by the rubber produced on plantations in the East Indies. The British are growing it in Ceylon, the Federated Malay States, Borneo, and in India near Madras. Its culture is also developed in the Dutch East Indies.

The British Empire is also well supplied with hides and skins. The available supply of fertilizer, however, is not great. Nitrates are obtained from Chile, and potash, before the war, was imported from Germany. Timber, although existing in large tracts in Canada, is imported into Great Britain largely from the Scandinavian countries. The Empire has an adequate supply of coal, but is deficient in petroleum. This latter fact is one of the reasons why the Mexican supply of petroleum is regarded with so much concern by the British.

Vegetable oils from palm kernels are largely controlled by the British. Palm kernels are produced extensively in British West Africa, and the British Government's control over these products is one of the most significant developments of the war. Vegetable oils made from copra, cottonseed, peanuts, and similar products, how-

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ever, are controlled by other countries, particularly France, The Netherlands, and the United States.

Great Britain imports about one-third of her iron, in part from the Scandinavian countries. Some iron is mined in the Dominions, and there are large reserves in such places as Newfoundland and Canada. India produces manganese, and the Empire has a supply of tungsten and molybdenum. Canada's position in nickel is dominant. The East Indian possessions of Great Britain supply the greater part of the world's tin. In Australia there is an ample supply of zinc. The pre-war importation by the Germans from this source of supply has led the British Government to take over the control of Australian zinc for a period of 10 years. The Committee on Commercial and Industrial Policy states in its report on essential industries:<sup>a</sup>

In the case of spelter, we are informed that negotiations between the British and Australian Governments have resulted in an agreement whereby the former undertakes to purchase for a period of 10 years the output of zinc produced in Australia from Australian ores, up to a maximum of 45,000 tons per annum; and also a minimum of 100,000 tons per annum of Australian concentrates, with an option of taking a further 50,000 tons per annum. For the purpose of developing spelter production in Australia, His Majesty's Government have undertaken to make certain advances to the Australian Government, repayable within a prescribed period. Provision is being made for the treatment in the United Kingdom by British controlled companies of the concentrates so purchased, by the erection of two large zinc-smelting works — adjoining Government explosive works — each for the treatment of a minimum quantity of concentrates, in the one case entirely Australian and in the other Burmese and Australian, His Majesty's Government making advances to meet the cost of erection of the works at a minimum rate of interest and repayable within a limited term of years.

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<sup>a</sup> British Blue Book (Cd. 9032), p. 3.

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In some metals, however, the Empire is lacking; these include antimony, chromium, and particularly copper.

The United States is well supplied with many of the most essential raw materials.<sup>4</sup> This country leads the world in the output of coal, iron, petroleum, cotton, and copper. It has plenty of iron, both immediately available and in reserve. The United States has supplies of manganese, chromium, tungsten, molybdenum, quicksilver, antimony, and magnesite which, although in most cases not comparable in quality with foreign supplies, would be capable of considerable development in case of need. The war has stimulated greatly the production of many of these rarer metals. The United States has an export surplus of lead, zinc, and aluminium. We obtain from abroad, however, our supplies of nickel and tin. We import about one-third of our wool, all of our silk and jute, half our hemp, and much of our flax. Phosphates are exported, but with the exception of the new supplies developed during the war, nitrates and potash must be obtained from abroad. All the rubber consumed is imported and a considerable amount of hides and skins. We have supplies of sulphur and timber ample enough to provide surpluses for export.

The position of the United States with reference to coal and oil may be seen from some comparisons. In 1913 the world's production of coal amounted to 1,319,642,848 long tons. Of this, 508,893,052 tons were produced in the United States, 287,000,000 tons in the United Kingdom, 272,962,293 tons in Germany; the other leading producers are Austria-Hungary, France, and Russia. The coal exports of the United Kingdom, in-

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<sup>4</sup> See George Otis Smith, *op. cit.*, on the position of the United States in regard to mineral raw materials.



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cluding that used for bunkering, amount to about a third of her production, and are the great factor in the coal trade of the world. British coal goes to France, Italy, Germany, the Scandinavian countries, and South America. The United States and Germany export large amounts, the former principally to Canada, the latter to northern Europe. France imports a third of her consumption, Russia about 20 per cent., Italy nearly all. There are vast reserves of coal in the world, and coal is being discovered many times as fast as it is being consumed. It is estimated that from one-half to three-fourths of the total reserves are in the United States. China contains large deposits of anthracite.

Over half the world's supply of petroleum comes from the United States. Other large producers are Russia, Rumania, Austria (Galicia), and Mexico. These regions export extensively. The world's supply is ever threatened by exhaustion. It is estimated that the supply in the United States may last but about 20 years. A new process of extracting petroleum from oil shales gives promise, however, of materially increasing the supply.

The shortage of coal during the war stimulated the use of hydro-electric power. Already before the war it was an important factor in production. It was being developed with great rapidity in South America, Canada, Norway, and Italy as well as in other parts of the world.

During the war it was the normal practice of nations to control their supplies of food, raw materials, and fuel in the interests of themselves and their associates. The organizations in the United States which dealt primarily with these problems were the Food Administration, the Fuel Administration, the War Trade Board,

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the War Industries Board, and the Shipping Board.<sup>5</sup> Their duties were performed in many cases in conjunction with the permanent departments and commissions of the Government.

On August 10, 1917, Congress enacted a law to provide for the national security and defense "by encouraging the production, conserving the supply and controlling the distribution of food products and fuel." This Act states:

That by reason of the existence of a state of war, it is essential to the national security and defense, for the successful prosecution of the war, and for the support and maintenance of the Army and Navy, to assure an adequate supply and equitable distribution, and to facilitate the movement of foods, feeds, fuel, including fuel oil and natural gas, and fertilizer and fertilizer ingredients, tools, utensils, implements, machinery, and equipment required for the actual production of foods, feeds, and fuel, hereafter in this Act called necessities; to prevent, locally or generally, scarcity, monopolization, hoarding, injurious speculation, manipulations, and private controls, affecting such supply, distribution, and movement; and to establish and maintain governmental control of such necessities during the war.

Under this authority the President established both the Food Administration and the Fuel Administration. The former was charged with the duties of securing the equitable distribution and of facilitating the movement of foods, feeds, and other derivative products. The Food Administration accomplished its purposes to some extent through the issuing of licenses, but more largely through voluntary agreements and educational propaganda. It was successful in eliminating many unfair,

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<sup>5</sup> For a detailed survey of the functions and organization of these agencies see, in this series, W. F. Willoughby, *Government Organization in War Time and After*.

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wasteful, and speculative practices. The Fuel Administration had charge of the production, distribution, and conservation of fuel, particularly coal.

The War Trade Board was created on October 12, 1917. In addition to certain powers over enemies' trade, it was given power to regulate the exports and imports of the United States. The Espionage Act approved on June 15, 1917, provided that upon the issuance of a proclamation by the President it should be unlawful to export from the United States to any specified country any article named in the proclamation except under such conditions and limitations as might be prescribed. In carrying out this law the War Trade Board issued or refused licenses for exportation of articles from the United States and thereby exercised an effective control over all outgoing products. The War Trade Board also administered the provisions of the Trading-with-the-Enemy Act approved on October 6, 1917, which made it unlawful to import into the United States any articles mentioned in a Presidential proclamation except under such conditions as might be specified. Under this provision a licensing system was established for imports. The War Trade Board had, therefore, complete control, through its system of licensing and its conservation lists, of the entire trade of the United States.<sup>6</sup>

The War Industries Board exercised control over production within the United States by regulating the distribution of raw materials, by determining those products which were essential, by assisting the President in conjunction with the Federal Trade Commission in fixing the price of basic products, by exercising priority control including transportation, and by assisting in

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<sup>6</sup> For a detailed description of its operations see, in this series, Louis E. Van Norman, *War Time Control of Commerce*.

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buying for the Allies. In short, this Board had charge of the control and allocation of the principal raw materials and of economizing, standardizing, curtailing, or stimulating production in such a way as to accomplish the purposes of the war.

Control over materials was exercised in still another way. The Shipping Control Committee was established by the Shipping Board and the War Department on February 11, 1918. It acted as the agent of the Shipping Board in allocating the vessels owned or controlled by it to cargoes and trade routes in order that the available tonnage might be used to its maximum efficiency in the most essential trades. It also acted as an agent of the War Department in operating the fleet of cargo steamers engaged in transporting military materials to the American army abroad.

The organization adopted by other belligerent nations for controlling raw materials need not be reviewed here in detail. Most of the methods adopted by the United States were in operation in other countries before we entered the war. The other belligerents had, in addition to restrictions on production and distribution within their own borders, their conservation lists, which came to include all important commodities, and they issued licenses regulating exports and imports.

A few examples of the effect of these national controls may be mentioned. The War Trade Board of the United States entered into a number of special trade agreements, particularly with neutral nations relating to their rationing and to the products which they were to supply the United States. American authorities practically determined the amount of steel which should be allotted to Japan. Steel was supplied to Japan only on stipulated conditions, namely, that the Japanese should fur-

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nish America with merchant ships. Similarly, Great Britain permitted the export of palm kernels only upon condition that a specified amount of glycerine should be supplied to her. Wool, coal, and other commodities were apportioned to various countries. Ships were secured to haul the coal to Brazil in order that Brazilian manganese, sorely needed in the United States, might be transported to the coast. In certain cases Governments commandeered the supplies of needed articles within their dominions. The wheat and butter of Canada, the wool and meat of Australia, the palm kernels of Africa, the tungsten of Burma, the cotton of Egypt, all these were requisitioned by the British Government acting in coöperation with the colonial Governments. Steel was the most important of a number of articles which were taken over by the American Government. The British Government requisitioned the insulated space on its vessels, insuring that the destination of frozen meats and other articles requiring refrigeration should be controlled by the Government. The United States and Great Britain used their control of bunker-coal supplies and coaling facilities to direct the movement of vessels of the world in accordance with their own interests. They could not formally prescribe to a neutral nation that its vessels should carry a specific cargo to a certain port, but they could accomplish this result by making such a voyage the condition of the grant of coaling privileges. In Australia a metals exchange was formed to dispose of supplies, of which only British subjects could be members. This assured that such control as that exercised by Germany before the war over the Australian tungsten and zinc would be impossible. Similarly, ownership of rubber lands in the British eastern possessions was restricted to British subjects. Syndicates were formed,

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such as the Nitrates Syndicate in London, with official sanction, to get control of certain key materials and to operate the industries.

Early in the war it became clear in Europe that national control of food and materials was not adequate. The submarine campaign, the shortage of shipping, threatened famine, and the need of essential raw materials in industry — each worked toward united action in economic matters. The Allies found themselves competing against each other in neutral markets and joint purchases became imperative.

The first organization for joint action was the Commission Internationale de Ravitaillement established on August 13, 1914. Says the *Round Table*:<sup>1</sup>

This body, true to the ideas which were in vogue in the earlier stages of the war, was not a joint executive. It was simply a department of the British Government acting as an agent for all the Allies in all matters relating to the purchase of supplies in the United Kingdom. For this purpose it had attached to it delegations from each of the Allies. It collected and coördinated the demands of all the Allies transmitted to it through these delegations, and it ascertained from the executive departments of the British Government how far these demands could be met. It was thus not itself an executive department. The actual placing or approval of contracts for the Allies in the United Kingdom remained in the hands of such executive departments as the Ministry of Munitions and the War Office. As time went on its functions as a coördinating agency were in a measure extended to include the whole British Empire and even, in certain cases, neutral countries, but it has remained a consultative body — a general clearing-house of information — without any very closely defined sphere of action or authority.

The entrance of the United States into the war

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<sup>1</sup> *Round Table* (London), September, 1918, p. 669.

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brought a stimulus to the growth of international executive control, and at the time of the signing of the armistice joint action among the Allies was well advanced. The ultimate decisions continued to remain in the Governments of the Allies, but the organizations developed had become truly joint executives. The shortage of shipping made the Allied Maritime Transport Council the most important of the international bodies. Men, munitions, food, raw materials—none of these could move without ships. Hence shipping became, as it were, the “neck of the bottle,” and the allocation of shipping space to the various needs of the Allies became a task of supreme and vital importance.

The Allied Maritime Transport Council<sup>a</sup> consisted of two representatives of the four important Allies, France, Italy, Great Britain, and the United States. Its primary object was to secure the most effective use of tonnage. The Council obtained a statement of the programmes of the import requirements for each of the main classes of essential imports and a full statement of the tonnage available to the different Governments. In addition to the purely naval and military demands upon tonnage, the chief needs for which tonnage had to be supplied were (1) food, (2) munitions, and (3) raw materials, and in carrying out the task of allocating shipping to these various needs the Council had the assistance of other important inter-allied bodies.

The Inter-Allied Food Council coördinated the work of the Programme Committees for cereals, oil seeds, sugar, and meat and fats. Concerning the work of this organization, the *British Board of Trade Journal* says:<sup>b</sup>

The establishment of the Committee has had the effect of

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<sup>a</sup> *British Board of Trade Journal*, December 19, 1918, p. 773.

<sup>b</sup> December 19, 1918.

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eliminating competition in purchase and transport. It co-ordinates the various programmes, according to the needs and resources of the countries individually and collectively, and according to the available tonnage and finance. By means of a Freight Committee arrangements are made for the shipments of food to Europe, and movements of shipping are closely watched. The Freight Committee works in close touch with the Allied Maritime Transport Council and the Ministry of Shipping.

It will be easily understood that the existence of this Inter-Allied organization has been of great advantage. Not only does it secure that each country receives its proper share of the imports, but it renders it possible to deal without friction or delay with sudden emergencies necessitating further supplies of particular foodstuffs.

Although chiefly concerned with the four Allied countries, the Inter-Allied Food Council provides for the needs of the other countries on the side of the Entente, such as Greece and Portugal, and arranges for the authorized shipments to neutrals.

Recently further obligations have fallen on the Food Council and the Committee of Representatives in respect of the territories recovered from the invaders, *e. g.*, Northern France, Belgium, Serbia, part of Italy, etc., and they are now considering the question of supplying food to the enemy countries. At present the problem before the Allies is one of feeding practically the whole of Europe.

The Inter-Allied Munition Council was also established to coördinate the work of the executives or Programme Committees for nitrates, chemicals, explosives, non-ferrous metals, mechanical transport, and steel. This Council coöperated with the Allied Maritime Transport Council in the matter of the allocation of tonnage for the transportation of munitions.

In addition to these inter-Allied bodies numerous inter-Allied programme committees were established, dealing with the following products: wool; cotton;



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hides; leather and tanning materials; tobacco and matches; paper; timber; petroleum; flax, jute and hemp; and coal and coke. These programme committees handled the inter-Allied needs of the important raw materials, and undertook to see that the industries were supplied in so far as they were related to the essential war needs.

What permanent effect, if any, will these war-time experiences in the control of food and raw materials have upon the commercial policy of nations? It may safely be said that the entire machinery of control will not be abandoned, in spite of the advocacy of this policy in some quarters; there will not be a reversion to the condition that existed before the war. Nor, on the other hand, will the elaborate machinery of control developed under the stress of war be permanently retained. For normal peace time it is neither necessary nor desirable. According to peace standards many of the attempts at Government regulation were failures. They accomplished, it is true, their purpose during the war, when peoples were willing to pay the cost. Under normal conditions, however, results must be balanced against outlay. Many forms of control are speedily being abandoned, and as the transition period draws to a close others will cease.

Nevertheless, some forms of control or regulation will remain and be important factors in commercial policy. Even before the war the absence of international regulation showed its evil effects. The policy of nations was at times directed toward getting political control over areas which contained raw materials essential to their industries. The desire to control sources of raw materials was a factor in Germany's policy in Turkey and

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Morocco, as it is in Japan's policy in China. Great Britain has made many efforts to develop the growth of cotton in the Empire in order to be independent of the United States for this material. In the world as it existed prior to the war, the absence of any guarantees of fair treatment or the open door encouraged two tendencies. In the first place, it led nations to endeavor to control by financial devices the raw materials produced in other countries. In many commodities there was no natural unimpeded flow from one region to another according to the demand existing for them. Deliberate efforts were made in a number of cases to control the movement of materials in the interests of particular nations. Before the war the flow of copper from the United States to Germany was determined by the action of the powerful buying organization of that country, which withheld its orders until the market was depressed, and then suddenly bought great supplies while others were unprepared, at prices actually less than those paid by American consumers. By other carefully worked out schemes the Germans secured the zinc and tungsten of Australia and the palm kernels of the British African colonies. Principally through the agency of her vast merchant marine, England came to control the world's supplies of tin.

In the second place, the absence of international regulation led nations to seek to control supplies of raw materials by extending their political domination over "spheres of influence," protectorates, and colonies. In the anarchical condition of the pre-war world no nation was willing to submit to a condition which made it possible for another nation to shut off its supply of a raw material and destroy the industry dependent upon it. It is futile to talk of disarmament until the causes for

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armaments are removed, and one of these causes is the exclusive control by some nations of essential raw materials needed by others.

War-time experiences have revealed in action many of the commercial devices which, although feared, were only potential before the war. If the policy of the future were to be trade warfare, we have familiarized ourselves with, and devised the machinery for enforcing, one of the most fatal of commercial weapons. Let us look for a moment at some of the new possibilities. Measures which before the war were occasional were pursued during the war as settled policies. War restrictions which were put in force even against neutrals, regardless of the most-favored-nation clause of commercial treaties, and export embargoes and import control might be used as permanent measures of trade regulation with far-reaching effect. Nearly every important nation produces some essential commodity in sufficient amount practically to dominate its market. The United States, for example, is in this position with respect to cotton and copper. Heretofore it has been our policy to admit foreign buyers to our markets on the same terms as those which apply to domestic buyers. We have not attempted to use our virtual monopoly of these commodities as a bargaining asset or for political or economic purposes. It is possible, however, that this policy might change. Great Britain has already requisitioned the cotton crop of Egypt and controls the wool supply in some of the British Dominions. As a war measure the allotment of steel to Japan by the United States was the exercise of an international function. Japan was affected by this action scarcely less than the United States. Few measures enacted by the Japanese Diet

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have had a more vital effect on Japanese industries than these measures adopted by American authorities. If such control were to continue in peace time, the possible complications can readily be imagined. Any such action, however, would involve no greater assumption of authority than that practiced by Japan under her monopolistic control of camphor. The British Government, it is stated, has levied an export tax on palm kernels and certain other products of the British Empire and provided for the remittance of the tax when the products are purchased by a producer within the British Empire. Such a policy will tend to injure the soap and chemical industries in other countries, particularly Germany. Germany, however, is scarcely in a position to object to this action because of her selfish monopoly of potash. These cases suggest the grave danger which lies along the line of the exclusive national control of such essential commodities as American cotton and copper, British jute, wool and palm kernels, Japanese silk and camphor, German potash, and Chilean nitrates.

One of the motives that inspired the ambitious plan of Germany to establish *Mittel Europa* was to obtain control of raw materials. She was able to hold out as long as she did in spite of the blockade because of the resources of the territories over which she extended her control. Raw materials were important factors in the treaties negotiated at Brest-Litovsk. In the resolutions adopted at Paris in June, 1916,<sup>10</sup> the Allies showed their resolve to conserve for their own exclusive use their natural resources during the reconstruction period. They undertook also to devise means to facilitate the exchange of their raw materials. In addition, they declared in favor of the necessary step to render them-

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<sup>10</sup> Appendix II.

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selves permanently independent of enemy countries so far as raw materials were concerned.

Discriminations in the distribution of raw materials, unfair manipulation of materials to the competitive advantage of a nation or its allies, the exclusive control of materials in areas controlled politically—these are causes of war. They may involve the very existence of a people. In such matters military strength may for a time afford one group of nations an advantage, but in decades or centuries, as history runs its course, the cycle comes around when the excluded nations decide to fight for economic equality.

At the same time that the war was disclosing to us the germs of trade warfare which breed in the control of raw materials, it pointed the way to avoid difficulty by demonstrating that collective world regulation is practicable. The inter-Allied control of food, munitions, raw materials, and shipping has demonstrated that nations can act jointly to solve a common problem which no one alone could solve adequately. The faith of men in their collective effort is now far greater than before the war. The world today is face to face with a choice, on the one hand, of an unregulated struggle between nations for raw materials, showing itself at times in shrewd bargaining or again in trade wars; or, on the other hand, of regulation through an international commission under the League of Nations. The elaborate controls of the war period are not necessary, but there should be a commission—perhaps advisory at first—which would assist in maintaining equality of treatment and the open door in the distribution of essential raw materials. It might be the same commission that deals with discriminations and other unfair practices in com-

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merce and trade, or it might be a separate commission. But it should have full powers of investigation and publicity, and aggrieved parties should be able to appeal to it for a consideration of their complaints.

## CHAPTER XIV

### INTERNATIONAL TARIFF POLICIES

Heights of tariffs primarily for domestic determination — How far they may be the subject for diplomatic discussion — Trade wars — Factors determining height of tariffs of dependent colonies and of China and Siam — Discriminations and preferences more obviously and always matters of international concern — Trade war between Germany and Canada — American reciprocity experiences — Preferences within the British Empire.

Nations have retained, and for the immediate future at least will continue to retain, the right to levy a reasonable tariff<sup>1</sup> on goods they import from abroad. How high or how low the tariff duties of a nation should be is a question primarily for domestic determination. The need of a government for revenue or of the people for food and raw materials and the stage of industrial development in which a nation may find itself constitute the determining factors. Even in the case of bargaining tariffs<sup>2</sup> these factors determine the effective minimum rates.

But this does not mean that the height of a tariff may never be a proper subject for international negotiations. Some of the most bitter tariff controversies in the nineteenth century were due, not to discriminations, but to unnecessarily high, and in some cases prohibitive, tariff rates. The European attitude toward the rates of the American Dingley tariff of 1897 is a case in point. Retaliation was seriously considered, but was not put into effect because of America's strong position with refer-

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<sup>1</sup> See Chapter VII.

<sup>2</sup> See Chapter X.

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ence to food and raw materials. In other cases trade wars of the most serious character resulted.

In 1888 a tariff dispute arose between France and Italy. Negotiations failed and a trade war followed. For two years each country applied retaliatory duties against the other, and then for eight years further each country applied its maximum duties to imports from the other. Both suffered seriously. By the end of the decade Italian exports to France had declined 57 per cent., and French exports to Italy showed a decrease of fully 50 per cent.

More serious was the trade war between France and Switzerland in the early '90's. This was of two and a half years' duration. France applied to Swiss goods her maximum rates, which were approximately 40 per cent. higher than her minimum rates. Switzerland in turn applied to French goods punitive duties ranging upward to 150 per cent. The Swiss also, by changes in railway rates, assisted in diverting their Marseilles business to Genoa, their Havre and Dunkirk trade to Antwerp and Rotterdam, and the whole of their trans-Atlantic silk trade to England *via* Belgium and Holland. In addition they cancelled their literary convention with France, which meant not only a serious financial loss to that country, but the diminishing of French cultural influence to the advantage of German thought and literature.

France's losses in this trade war were heavy. The diversion of Swiss commerce to other countries lost to her millions of francs in railway receipts, ocean freights, and commissions. Austria, Italy, and the United States gained at her expense in the sugar trade, Spain in the wine trade, Italy in the silk trade, Germany and Belgium in metal goods, and the United States in leather. Ger-



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many received half of the trade lost by France in ready-made clothing and one-third of that lost in woolen goods. Not until seven years after the close of the trade war did French exports to Switzerland again equal the exports of the normal years before the trade war.

In 1893-4 Russia and Germany engaged in a brief but costly tariff war. Russia's attitude had been hostile to German commercial interests. In 1893 she framed a double tariff, the minimum rates to be granted in return

Germany retaliated. Russia raised her tariff rates still higher and increased twenty-fold her harbor dues on German shipping. Germany was quick to see the danger of the situation. Her industrial interests feared the result of the most-favored-nation treatment accorded to French goods in Russia. Russia, furthermore, was able to avoid much of the force of the German rates by shipping her grain to Austria-Hungary. After a few months of this warfare an agreement was reached, but not until both countries had suffered serious losses.

Although it is still true that the height of a tariff is a subject ultimately not for international but for national decision, high or prohibitive tariffs (tariffs which more than equalize competitive conditions with a fair margin) do not pay. A country in a strong economic position might maintain a very high tariff and, if it had a series of most-favored-nation treaties, might rely on the bargaining of other countries to secure for it modifications of other tariffs. But such a policy cannot be pursued with impunity. It leads to irritation and retaliation. Under such circumstances even the height of a tariff may be a subject of negotiation and diplomatic discussion.

The principle that tariffs should be primarily for domestic determination has a corollary which is not so

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readily accepted. Tariffs of dependent colonies and of such countries as China and Siam should also be made in the interests of the peoples directly affected. The revenue and the industrial needs of peoples under the tutelage of more advanced peoples should govern primarily, as in the case of independent nations, in the determination of their customs-tariff policy. This course, however, has not usually been followed. Tariffs of dependent colonies have been made by the mother country. China and Siam have had practically no voice in the making of their tariffs. The customs duties levied in their ports were fixed for them in treaties concluded more than a half-century ago between the leading commercial nations that were interested in Chinese and Siamese trade.

It is obvious at a glance that the tariffs of most of the dependent colonies of the world and of China and Siam are made, not with local interests primarily in view, but in behalf of nations that have goods to export. In the case of China and Siam there are those who believe that simple justice requires that they be granted tariff autonomy. If this does not seem practicable at the present time, the treaties should at least be revised in such manner that the revenue and economic needs of these countries shall have first consideration. An international commission is now revising the Chinese tariff. In the framing of tariffs for dependent colonies the essential needs of the people, perhaps backward economically, should be considered before the commercial interests of the home country that has goods to sell abroad.

Low tariffs that are desired by the exporting interests of commercial countries are very likely to be most desirable from the standpoint of the peoples of dependent

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colonies and of China and Siam; tariffs chiefly for revenue are most in line with these countries' needs. But these interests do not always coincide. A higher tariff in China would unquestionably contribute to her financial and political independence. India also furnishes an interesting case in point. The Lancashire cotton manufacturers have always opposed a tariff on cotton goods imported into India. Formerly when an import duty was levied on cotton goods for revenue purposes, an excise tax equal to the import duty was levied on cotton goods produced in Indian mills. Thus far did the British Government go in its effort to eliminate even the suggestion of protection from India's tariff. Indian opinion was hostile to this situation, but not until the war was there a change in the direction desired by local interests. This was brought about by the increasing severity of Japanese competition. The Indian mills sought some protection from the rapidly mounting imports from Japan. In March, 1917, the duty on cotton goods was raised from 3½ per cent. to 7½ per cent. without a corresponding increase in the excise tax.

Tariffs of dependent colonies, then, should be framed on the same basis as those of independent nations. In both cases first consideration should be given to the fiscal and the industrial needs of the people directly affected.

As distinguished from the height of tariffs, preferential and discriminatory rates raise a different question. These are more obviously and always matters of international concern. When a country places the products of one people on a more favorable tariff basis than the products of another people, it has sown the seed of international illwill. Plausible arguments in

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favor of reciprocal arrangements and preferences do not alter the hard fact that a nation discriminated against by another has a grievance which it may nurse into a hatred. In a world where economic interests are inseparably interlocked, he is on the defensive who holds that inequalities in tariffs are not subjects for international discussion — perhaps for international decision.

Much can be done by individual nations toward establishing equality of treatment. Each nation has a duty not only to grant to other nations equal treatment, but to guard itself against discriminations. Bargaining tariffs and commercial treaties containing the unconditional most-favored-nation clause are useful instruments to this end.<sup>3</sup> But when nations have done all that they can individually, there still remain untouched some of the more fundamental and irritating tariff discriminations—those that mere bargaining between nations have failed to remove. These include special reciprocity treaties between nations and preferential tariffs within an empire justified on sentimental, political, geographic, or economic grounds. They also include preferential arrangements between the mother country and dependent colonies, which will be considered in a subsequent chapter. Even those countries that accept the unconditional most-favored-nation clause have insisted upon their right to make special tariff arrangements that discriminate against others. Ordinary national bargaining systems break down in these cases and merely add to the causes that provoke trade wars. A nation prejudiced by a preferential tariff or an exclusive reciprocity treaty is confronted with the dilemma of submitting to the discriminations or engaging in a trade war. An example will illustrate this fact.

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<sup>3</sup> See Chapter X.

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In 1898, when Canada granted British goods a special tariff preference, Germany protested. By the treaty of 1865 with Great Britain, Germany had been assured as favorable treatment in British colonies as was extended to British goods. But in 1897, in compliance with the repeated requests of the Dominions, Great Britain denounced this treaty. After preference went into effect, Germany, by action of the Bundesrat, continued to admit British products at the rates in her conventional tariff, but to Canadian goods she applied her maximum rates. She wished, in addition to gaining the specific advantage of lower rates in Canadian markets, to defeat this important step toward closer political and economic organization of the British Empire. After several years of negotiation, which failed to secure the repeal of the German penalization, Canada applied a surtax on German goods. German losses in the trade war were greater than Canada's. Her exports to Canada decreased 50 per cent. and her goods were replaced by English and American goods. Germany evidently concluded that it did not pay, for when the other self-governing Dominions adopted preference, she chose to submit to the discrimination. In 1910 Canada and Germany reached an agreement which ended the tariff war without obtaining for Germany the preferential rates or even most-favored-nation treatment. We have, therefore, reached a point in the consideration of tariff discriminations where nations acting separately or bargaining in the ordinary isolated way, two by two, are not able to solve the problem.

American experiences with bargaining for exclusive favors throw much light on the methods employed and the futility of such a policy from a national, as well as an

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international, standpoint. The Tariff Act of 1890 contained a provision (Section 3) intended to secure for the products of the United States special tariff concessions in certain foreign markets. The President was given power to proclaim, without reference to Congress, specified penalty duties on sugar, molasses, coffee, tea, and hides imported from any country imposing duties, or other exactions, upon the products of the United States, which, in view of the free admission into the United States under the regular tariff of sugar, molasses, coffee, tea, and hides, he deemed to be "reciprocally unequal and unreasonable." Here was a device which gave the President power to place the goods of one nation on a less favorable basis in our market than the goods of another in case a nation should refuse to grant to the United States special, although not necessarily exclusive, privileges in its markets. Under this law the President concluded agreements with Brazil, with Spain for Cuba and Porto Rico, with the Dominican Republic, with Salvador, with the German Empire, with Great Britain for the West Indies colonies, and with Nicaragua, Honduras, Austria-Hungary, and Guatemala. By these agreements the United States secured from Germany and Austria-Hungary all or part of the rates of their newly established conventional schedules, and from the Latin-American republics special rates which were not generally granted to third countries. The reduced rates established in the Spanish and the British West Indies by these agreements, however, were enjoyed also by the mother countries. All these agreements were terminated by the Tariff Act of August 27, 1894.

The United States Tariff Act of 1897 made provision for three kinds of reciprocal arrangements. In the second part of Section 3 of that Act is found a provision

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identical *in principle* with Section 3 of the Tariff Act of 1890. The President was authorized, without reference to Congress, to negotiate and proclaim treaties securing to the United States special, although not necessarily exclusive, privileges in foreign markets and to grant in return the continued free admission from the countries with which the treaties were made, of coffee, tea, tonka beans, and vanilla beans. These products were admitted free under the regular tariff, and the penalty duties provided were to be used by the President in placing any country from which the specified products came, on a less favorable basis than other nations, in case of refusal by that nation to grant to the United States special favors in its markets. This part of Section 3 led to no agreements, but it was a factor in securing for the United States preferential treatment in the Brazilian market in 1904.

In the first part of Section 3 of the Act of 1897 is found a provision for negotiating reciprocity treaties on a different principle. The President was authorized in return for "reciprocal and equivalent concessions" to grant specified reductions from the duties on argols, brandies, sparkling and still wines, and paintings and statuary. Instead of using penalty duties, the principle is here introduced of making special reductions in the regular tariff rates on certain articles in return for reciprocal reductions in the tariff rates of other countries. Agreements under this provision required neither the ratification of the Senate nor the approval of Congress. Agreements, known as the "Argol Agreements," were negotiated and proclaimed with France, Portugal, Germany, Italy, Switzerland, Spain, Bulgaria, the United Kingdom, and The Netherlands. In return for its concessions the United States received reciprocal con-

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cessions in each of these agreements. In no case, however, were these concessions confined to the United States. In most cases they consisted in the grant to the United States, either for the first time or in renewal of a previous grant, of all or part of the rates of minimum or conventional schedules already enjoyed by all the favored nations. In several cases, however, the agreements secured for the United States the benefit of conventional rates lower than those that had previously been effective.

The third reciprocity provision (Section 4) in the Tariff Act of 1897 differs from each of those thus far considered, in that treaties negotiated under it had to be ratified by the Senate and approved by Congress before they became effective. Under it the President was authorized to negotiate for concessions in foreign markets and to concede in return a reduction in the duties of the Tariff Act of not more than 20 per centum of those duties, or to transfer to or agree to retain on the free list specified articles from any country making satisfactory concessions. Treaties known as the "Kasson Treaties" were negotiated with France, with Great Britain for the British West Indies, with Denmark for St. Croix, with the Dominican Republic, Nicaragua, Ecuador, and the Argentine Republic. These treaties failed of ratification in the Senate and, therefore, never became effective.

When the Tariff Act of 1909 was under consideration, Congress apparently decided that the bargaining methods of the Tariff Acts of 1890 and 1897 were not in line with sound policy. It did not reenact any of them. It abandoned them, not only in form but in principle. The bargaining section of the Tariff Act of 1909 does not seek to exact special privileges, but merely



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endeavors to bring about the equality of treatment of Americans and American products in foreign markets.<sup>4</sup>

None of the treaties negotiated under the Tariff Acts of 1890 and 1897 is now in force. The sole surviving remnant is our preferential arrangement with Brazil, which is not a formal agreement at all. Section 3 of the Tariff Act of 1897 provided, it will be recalled, for a penalty duty of three cents per pound on coffee. Brazil was particularly dependent upon the United States as a market for her coffee. The same was true of her rubber. In 1904 our State Department suggested to Brazil that unless preferences were accorded to certain American products in Brazilian markets, the penalty duty on coffee would be proclaimed against her and steps would also be taken to impose a duty on rubber, which at that time was on the free list.

Wheat flour was the leading product upon which the American Government requested a preferential rate. Negotiations finally resulted in a preference being granted to the United States in 1904 on wheat flour and on a few other products. Under the Brazilian law it was necessary for this preference to be renewed each year. It failed of renewal in 1905, but, with a few changes in the articles affected, it has been reenacted in the annual Brazilian budget each year since that time. The only preferential rate of substantial importance is the reduction of 30 per cent. in the duty on wheat flour.

The only formal reciprocity treaty now in force to which the United States is a party is with Cuba. It was ratified in 1902. Political rather than economic factors led to the negotiation of this agreement. Under it American goods receive a preference in Cuban

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<sup>4</sup> See Chapter X.

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markets, and Cuban products, the most important of which is sugar, receive a preference in American markets.

Preferential tariffs within the British Empire, already alluded to in the case of Canada, should be considered in any discussion of international tariff policies. Australia grants preferences to two political divisions of the British Empire, the United Kingdom and the Union of South Africa. In the case of the United Kingdom she grants a preference on a majority of the items in the tariff. Generally speaking, the preferential rate is five per cent *ad valorem* below the general tariff. Machine tools, however, receive a 10 per cent. *ad valorem* preference and cutlery a 20 per cent. *ad valorem* preference. The basis for the preference granted to the South African Customs Union is the general tariff of 1908. This means a substantial preference, for the Australian Tariff Act of 1914 raised the average rate on dutiable goods from 17.62 per cent. to 32.26 per cent.

The preferential tariff of New Zealand is unique in two respects. In the first place, the preferential schedule is the general tariff, and all goods from outside the British Empire pay a surtax in addition thereto. In the second place, the statute provided that the preferential schedule should be applicable to goods from the United Kingdom and from any part of the British Empire, and that special reciprocity agreements with other parts of the Empire, making reductions of duty below the rates of the preferential schedule, must be ratified by the New Zealand Parliament. The only special agreement that exists is that with the South African Customs Union. As a result of these provisions certain goods from any part of the British Empire are subject to the general tariff schedule; a specified list of

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goods from South Africa, including feathers, fish, maize, sugar, tobacco, tea, wine and spirits are admitted at rates substantially below the rates of the general tariff; and certain goods imported from other parts of the world pay a surtax varying from 10 to 100 per cent. *ad valorem* above the rate on which British goods are admitted.

In the case of the South African Customs Union, the regular schedule applies to foreign goods and the preferential schedule to goods from the United Kingdom and from reciprocating British Dominions. The Dominions that have taken advantage of this reciprocal provision are Australia, New Zealand, and Canada. The preference granted to English goods and those of the reciprocating Dominions averages only about three per cent. *ad valorem*, but it is applied to a wide range of imports, approximately 82 per cent. of the total.

Canada provides three schedules on imports. The lowest rates, giving a preference of about one-third of the duties in her general tariff, apply to the whole of the British Empire except Newfoundland, Australia, Gibraltar, Cyprus, Hongkong, and Malta. The second schedule contains the intermediate tariff with rates from  $2\frac{1}{2}$  to five per cent. *ad valorem* lower than the rates of the general tariff. It has not been extended in its entirety to the products of any country. A large number of products of France and Italy have received the benefits of these lower rates by virtue of reciprocal agreements, and Belgium and Holland because of the liberal character of their tariffs have also been granted voluntarily the benefits of certain rates in the intermediate tariff. Canada has also extended, in conformity with the stipulations of most-favored-nation treaties, the benefits of the intermediate tariff on certain products to

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Argentina, Denmark, Japan, Norway, Spain, Sweden, Switzerland, Venezuela, and several other countries.

By a reciprocal agreement negotiated with Canada in 1912, which came into effect in 1913, all the British West Indian colonies, except Bermuda, Jamaica, and the Bahamas, give a preference of 20 per cent. of their general rates on a long list of Canadian products. This preference is also extended to the products of Great Britain and Newfoundland. In return Canada grants to these colonies a preference of at least 20 per cent. of the lowest rates imposed on imports from foreign countries on all the important products of the West Indies. This agreement is to continue in effect until 1923.

Great Britain, it should be said in justice to her, has never urged or even encouraged the establishment of preferences in her favor. A minority in Great Britain has favored an extension of preference, and some resolutions have been adopted declaring for it. For example, on February 2, 1917, a resolution was adopted by the Committee on Commercial and Industrial Policy of the House of Commons, a part of which is as follows: "We therefore recommend that H. M. Government should now declare their adherence to the principle that preference should be accorded to the products and manufactures of the British Overseas Dominions in respect of any Customs Duties now or hereafter to be imposed on imports into the United Kingdom." There is no evidence that the electorate of Great Britain will favor this policy. It will not, for the present at least, favor levying import duties on foods and raw materials, and it is precisely on these that preferences would be most welcome in the Dominions. It is significant, however, that the import restrictions imposed by Great Britain as measures of reconstruction are not applicable to goods coming from

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other parts of the Empire. The British authorities have removed all restrictions on importations into the United Kingdom that are exported from and are the product or manufacture of the British Dominions, except in a few cases. Australia has partially adopted a similar policy.

Tariff policies are deeply rooted in the sentiments and traditions of nations. In some cases they are vitally connected with their economic welfare. They cannot, therefore, be decided without a careful consideration of all the factors in the case. But one of the factors, a factor made more important by the war and the conditions out of which it sprang, is the necessity for increasing goodwill and harmony among peoples. World, as well as national, interests demand consideration. It may not be expedient for nations to retain all the economic advantages they possess by reason of their immediate position. Tariff discriminations not only accentuate the differences among nations, but may react disastrously on their makers. A time has come when peoples must consider what they can surrender in the interests of better world conditions, but before the principles of adjustment are considered, attention must be directed to another field in which preferential tariff arrangements have flourished.

## CHAPTER XV

### THE OPEN DOOR AND COLONIAL TARIFFS

**"Open door" defined — The "closed door" in the old colonial system — Return of struggle for colonies in the nineteenth century — Agreements relating to the open door — Berlin Conference, 1884-5 — Algeciras Conference, 1906 — Open door in China — Ingenious ways of closing the "door" — Colonial tariffs — The Netherlands — British dependent colonies — Spain — Germany — Italy — France — The Philippines — Colonies should not be instruments of commercial policy.**

The principle of the open door does not imply free trade or even low or revenue tariffs. It implies actual equality and uniformity of treatment in import and export duties, harbor dues, customs regulations, distribution of raw materials, and opportunities for investments or concessions. It may be made applicable in any dependent colony or even in a country, such as China or Persia, where outside Governments are backing the commercial and financial interests of their nationals in their competition for trade, investment, or concessions.

The old colonial system of the sixteenth and seventeenth centuries was based on monopoly, exclusion, and the "closed door." Colonies were conceived to exist solely for the benefit of the mother country. Mercantilist statesmen looked upon them as a means of enriching the nation. The mining of the precious metals was encouraged. Navigation laws made colonial shipping a national monopoly. Colonies were required to sell their produce to, and to purchase their supplies from, the mother country. Trade and colonial rivalries developed into wars. The British fought successfully in turn the Spanish, the Dutch, and the French, and laid the

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foundations of a great empire. It was an age full of heroic achievements but ruled by ideals of combat and dominance — ideals which can find no place in any just plan of world affairs.

The latter part of the nineteenth century witnessed a revival of colonial policy as epochal in its importance as the old colonialism. It came as one of the results of the later phases of the industrial revolution. Mechanical invention and business organization increased production, goods were exported to foreign markets, capital accumulated and sought investment. Colonies, protectorates, and spheres of influence became desirable. Politics began to interest itself in the commercial and financial conditions of distant countries.<sup>1</sup>

When this revival of colonial interest began, Great Britain discovered that she had under her flag some of the most desirable parts of the earth's surface. France, however, retained only a shadow of her seventeenth century empire. The colonies which the Dutch, the Portuguese, and the Spanish still held were but remnants of their former domains. But there were large portions of the world uncontrolled by any great power. South America was closed to European political interference or control by the Monroe Doctrine. Africa offered the greatest opportunities for colonial expansion, and its partition became a great colonial problem. Great Britain and France, chiefly by pushing inland from their footholds on the coast, obtained more than one-half of the entire continent. France's share of the Dark Continent, approximately 4,000,000 square miles, was largely acquired after 1885. Leopold of Belgium acquired approximately 900,000 square miles; Italy, 600,000; Germany, 900,000. The Portuguese took a renewed interest

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<sup>1</sup> Cf. Chapter I.

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in holdings and claims neglected for years. Spain's acquisitions were insignificant compared with other powers. Nor did the islands of the sea or Asia escape the colonizing fervor. Oceania was taken over, and the integrity of China, Persia, and other Asiatic countries threatened.

The Berlin Conference of 1884-5 met for the purpose of adjusting the rivalries of nations in the Congo Basin. Its significance in this discussion is that it emphasized the importance of the open door in international relations. By establishing this principle for Central Africa, it reduced the hostility with which various nations were regarding proposed acquisitions by others, and thus facilitated that peaceful settlement of territorial claims which was going on outside the formal sessions of the Conference. France and Portugal had been competitors in the Congo, and the African International Association had at the same time tried to establish an independent dominion. Fearing the encroachment of her rivals, Portugal sought British support, and negotiated a treaty which recognized Portuguese possession of the mouth of the Congo and promised the open door in the colony. Lord Granville reminded the Portuguese that England's recognition of her territorial claims was worthless unless other powers would follow. This treaty was opposed by the other nations, the opposition being led by their merchants, who distrusted or misunderstood the Portuguese promises. After it was abandoned, Bismarck called the Berlin Conference together in the hope that a settlement might be reached with reference to the whole Central African question. In opening the first session Bismarck said: "The fundamental idea of this programme is to facilitate the access of all commercial



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nations to the interior of Africa.” There was a general acceptance at this international assembly of the proposition that a free zone should be established and the greater part of the discussion related to the delimitation and the neutralization of the territory affected. The principles established were that trade should be free to all nations in the Basin of the Congo, including certain territory east and west to the Indian and Atlantic Oceans,<sup>2</sup> with free access to ports and to the Congo and its affluents; that navigation fees, equal for all, should be allowed only to cover costs of improvements; that “import duties” should be prohibited;<sup>3</sup> that no commercial monopoly or privilege should be granted; that foreigners should in all cases enjoy the same rights in the region as did citizens of the sovereign power; and that the execution of certain of these provisions should be in the hands of an international commission. This commission, however, was never appointed, and the administration was left in the hands of the states holding territory in the zone.

Passing over a number of treaties between two or three nations relating to the open door, the most important of which is the one between France and Great Britain in 1898, applying for 30 years the open-door policy to some one million additional square miles of African territory, we come to the Algeiras Conference of 1906, in which again the leading European powers considered the question of commercial equality, this time with reference to Morocco. A uniform maximum import duty of 12½ per cent., applicable to the goods of all nations, was agreed

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<sup>2</sup> The territory to the west was a comparatively narrow strip, whereas on the Indian Ocean the free-trade zone reaches its greatest extent, north and south.

<sup>3</sup> In 1890 the Brussels Anti-Slavery Conference permitted a 10 per cent. import duty in the Congo zone.

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upon. A state bank was established under international control. All concessions and contracts were to be let publicly without discrimination. In case a contract for a Government work was to be let, the diplomatic representatives of the powers entering into the agreement were to be notified. In general, the Conference agreed to the principle of the open door in all commercial and financial matters.

In the diplomacy of the Far East, the principle of equality in commercial matters was recognized when Secretary of State John Hay on September 6, 1899, requested and later received from the nations holding "spheres of influence" in China the pledge that they would maintain the open door as to customs duties, harbor dues, and railroad rates. Later, in the preamble of the Anglo-Japanese Alliance, signed on January 30, 1902, Japan and Great Britain reasserted their adherence to the open-door principle, to the effect that the parties were specially interested "in securing equal opportunities" in China and Korea "for the commerce and industry of all nations."

Much of the difficulty with the open-door policy has resulted from a failure to recognize and to acknowledge its full implications. In many quarters it has received lip service but in practice has either been evaded by secret devices or modified by so many exceptions that it has become little more than an aspiration. It must not be assumed that in all cases where international conferences, diplomatic notes, and treaties have proclaimed the open door, the door has remained open. Some of the ingenious methods by which the door has been closed will be considered later.\* They include the story of the rail-

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\* See Chapter XVII.

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roads and other concessions of China and of the development of trade and finance in Asia and Africa. Under Leopold of Belgium, for example, free trade in the Congo Free State was all but nullified by the prohibition of trading on the domain of the State and on the lands of companies holding concessions—in other words, the greater part of the country. It is the secret and concealed influence of Governments, working in or co-operating with trading companies and nominally private concerns which hold railroad, mining, or timber concessions, that presents the most serious menace to equality between nations in commercial and financial opportunity.

Tariffs have played a large part in the controversies over the open-door policy. A brief survey of the tariff policies of the leading nations in their colonial possessions will help to clarify our problem. In the dependent colonies of some nations, such as The Netherlands, Great Britain, and Germany, the open door has been maintained in import tariffs; in the dependent colonies of other nations, such as Italy, France, and the United States the import tariffs discriminate against foreign goods, giving preferences to the mother country.

In the past there has been much in the colonial policy of The Netherlands that was contrary to the open-door principle. The colonial monopoly of the Old Dutch East India Company of the seventeenth and eighteenth centuries is proverbial. Its objectionable practices survived it by more than half a century. It was in 1800 that control of the Dutch East Indies passed from the Company to the State. Differential duties to protect Dutch products and shipping (limited somewhat by treaty obligations to other powers) were maintained until 1865 and not entirely abolished until 1872. Since

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then the open-door policy has been strictly maintained, so far as the tariff is concerned, to the benefit, it is declared by a leading authority, not only of the Indies, but of the commerce of the mother country as well.<sup>5</sup>

Speaking of the policy of The Netherlands, J. T. Cremer, Minister of The Netherlands to the United States, said:<sup>6</sup>

The results of the open-door policy are very satisfactory. Far from having stunted home enterprise, the foreign competition has stimulated and strengthened it; and its products compete with those of other nations not only in the colonial but also in the world's markets. Although Holland hardly produces any charcoal, and produces no ores of any kind, although it is therefore severely handicapped as an industrial country, still its industries have greatly developed in the last century. Its shipping enterprise is known all over the world; in the transit through the Suez Canal it took the third place before the war.

The East Indian Colonies at the same time rapidly developed. The total trade returns amounting in 1890 to 300,000,000 florins, in 1915 to 480,000,000 florins, grew in 1913 to one milliard florins, which at the rate of 2½ florins to the dollar, is equivalent to \$400,000,000. They more than trebled in 23 years. The imports were about 40 per cent., the exports 60 per cent. of that total. Nearly one-third of the trade was direct between mother country and colony. The chief imports were: machinery, iron and steel, automobiles, etc. The exports were: sugar, tobacco, rubber, tea, coffee, chincona, vegetable-oil, etc.

The land policy of The Netherlands in Java is not without its bearing on the open-door principle. The Dutch succeeded to the sovereignty of the native princes who had formerly ruled in the islands. That sover-

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<sup>5</sup> Clive Day, "Dutch Colonial Fiscal System," *Publications of the American Economic Association*, 1900, p. 75 *et seq.*

<sup>6</sup> *Proceedings of the American Economic Association, meeting at Richmond, Virginia, December, 1918.*

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eignty, being absolute, included complete rights to the property and persons of the inhabitants. There followed, under the Dutch, assured tenancy and a system of enforced labor, which was akin to feudalism. The last vestige of the Government's right to enforced labor was finally renounced, however, and the natives have "by the Netherlands Government been proclaimed free tenants of the land they were accustomed to till." The Dutch maintain that it was the native inability to conceive of the meaning of freehold, rather than any reluctance on the part of the Government to give them complete title, that caused the natives to regard themselves as "temporary boarders for lifetime" rather than as "freeholders of an inheritable plot of land." Today unoccupied lands may be leased by Europeans for long terms from the Government, and lands occupied by the natives may be leased from them for short periods. It is said that were it not for the rule prohibiting natives from alienating their lands permanently, the Chinese, who are much shrewder than the Javanese, would soon be in complete possession, and the natives would be reduced to semi-slavery.<sup>7</sup>

British dependent colonies are usually classed as follows: (1) India; (2) the Crown Colonies, which are completely under the control of the Home Government; (3) the legislative colonies, which have representative institutions and a partial control over their own affairs, but for which public officials are appointed from London.<sup>8</sup> In all of these colonies except the West Indian colonies in the last named class the import tariffs em-

<sup>7</sup> Netherlands East Indies San Francisco Committee, Department of Agriculture, Industry and Commerce Pamphlets, No. 16 (1914), p. 8 *et seq.*

<sup>8</sup> For self-governing British Dominions see Chapter XIV.

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body the principle of the open door. British have no preference over foreign goods. Great Britain, however, has recently levied export taxes on palm kernels, raw cocoa, and jute when exported from British West Africa and India, and these taxes are remitted if the exports go to any portion of the British Empire.\* These indications of the beginnings of a policy of discrimination are significant.

Spain, which in former centuries was one of the most important of the colonial powers, has now but a few remnants of her great colonial empire. Her most important colony is the group known as the Canary Islands off the west coast of northern Africa. These Islands have been in the possession of Spain since about the year 1500. The other Spanish possessions are in Africa, and include a district known as Rio Muni, on the African mainland bordering on the Gulf of Guinea, and certain islands off the coast, the chief of which is Fernando Po. In northern Africa Spain owns the district of Rio de Oro and has a protectorate over the northern portion of Morocco. The entire area of her colonial possessions amounts to not much over 100,000 square miles.

Adherence to a policy of colonial monopoly is traditional with Spain. This policy is still applied through preferential treatment of trade between the colonies and the mother country. Certain colonial products from the Canary Islands and from Spanish possessions in the Gulf of Guinea are given preference in the home market. Preferences are also established by Spain on Spanish

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\* See *London Times* "Trade Supplement," December, 1917, p. 193; *The Americas*, vol. ii, no. 10, July, 1916, p. 20; *The Nation* (London), August 3, 1918.

## OPEN DOOR AND COLONIAL TARIFFS

goods in certain colonial markets. With the exception of Morocco, where the open door is established by international agreement, preferences are the rule. The import tariff of the Spanish possessions in the Gulf of Guinea has two schedules: one on goods of foreign origin or goods imported in foreign vessels; another, substantially lower, on goods of Spanish origin imported in Spanish vessels. Preferences are also found in the export taxes.

Germany entered late in the race for colonies. She was inspired to enter by many motives, but chiefly by the desire for commercial advantage. Other industrial countries had tropical and subtropical colonies which supplied raw materials and which furnished markets and opportunities for the investment of capital. Preferential tariffs in colonies and the possibility of the extension of the policy of exclusion to other colonies and to "protectorates" impelled Germany to seek political control over parts of the world. Dernburg, the German Colonial Secretary, said:<sup>10</sup> "A country's own colonies become an instrument of commercial policy, since a nation secures rights and privileges in foreign colonies only when one can offer corresponding rights and privileges in her own colonies." Germany's first colony was acquired in Africa in 1884; the last important one, Kiao-Chau in Shantung Province, was taken from China in 1897.<sup>11</sup> Her colonial empire included Togoland, Kamerun, German South-West Africa, German East Africa, German New Guinea, Kiao-Chau, and cer-

<sup>10</sup> From an address entitled *Zielpunkte des Deutschen Kolonialwesens* (Berlin, 1907).

<sup>11</sup> The Caroline Islands were acquired by treaty of October 1, 1899, and the German claim to a share of Samoa was recognized by treaty of November 14, 1899.

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tain small islands in the South Pacific, in all just over a million square miles.

The published tariff rates of German colonies show no preferences. German goods received no preferences in the colonies; colonial goods received no preferences in Germany. But the questions may be raised: Were there any concealed preferences, and if not, what motive led Germany to pursue an open-door policy?

Preferences may be concealed by arranging the free list in order to exempt from import duties articles predominantly of German origin; by placing relatively lower duties on goods that are important in the commerce between the colonies and the mother country; by administrative regulations that, although apparently applying to all equally, favor German goods. Evidence relating to such practices is very difficult to obtain, but it seems safe to say that there is no proof that Germany ever closed the door in her colonies.<sup>12</sup>

In the Congo Basin, which was defined to include German East Africa and part of the Kamerun, discriminations were prohibited by the Berlin Act of 1885. There was also a selfish motive for refraining from adopting preference. Germany was not in a strong position in regard to colonial policy. Had she adopted preference, it might have led to retaliation by such colonial powers as Great Britain and France, and in that case Germany's loss would have been out of all proportion to the gain from preference, as her colonies were insignificant and undeveloped in comparison with the older and richer colonies of France and Great Britain.

Italy, like Germany, did not begin to seek a colonial

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<sup>12</sup> Cf., however, German early policy in Kiao-Chau, Stanley K. Hornbeck, *Contemporary Politics in the Far East* (1916), p. 296 et seq.



## OPEN DOOR AND COLONIAL TARIFFS

empire until the better parts of the earth's surface were preëmpted. The Italian colonies, Eritrea, Somaliland, and Libia (Tripoli), were acquired in the order named. The colony of Eritrea attained its present boundaries, approximately, by 1900. Somaliland includes the colony proper and to the north several protectorates. It was acquired in 1889 with the exception of the four chief ports of the southern part, which were leased in 1893 from the Sultan of Zanzibar and purchased in 1905. Libia was annexed by decree of November 5, 1911, although the treaty of peace with Turkey was not signed for almost a year and guerilla warfare continued even longer. The commercial importance of these colonies is insignificant. Exports are small, and the total trade of all three does not exceed 20 million dollars per annum.

The tariffs of these Italian colonies are low. Certain preferences in favor of Italian products exist in the import schedules and in the export taxes of Somaliland, and colonial goods from Eritrea enjoy some preferences in the Italian market. For our purpose a few examples will suffice. Italian goods when entering Eritrea pay only a statistical tax of one per cent. as against eight to 15 per cent. paid by foreign goods. The imports of Italian cottons have greatly increased, whereas the imports of foreign cottons have declined. The same tendency is seen in cotton imports into Somaliland, where Italian goods also have the benefit of a preference. Certain articles, particularly hides, when exported from Somaliland to Italy have a preference in the export taxes. There is a tendency to increase preferences, and they have begun to appear in the Libian tariff.

France's colonial empire includes enormous areas and the utmost diversity of peoples. In Africa, where by

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far the largest territory is controlled, it includes Tunis, Algeria, Morocco, large sections of west and Equatorial Africa, and Madagascar; in Asia the chief possession is Indo-China; and in America and Oceania possessions are held, the most important of which is New Caledonia.

French colonies may be classified for tariff discussion into assimilated, open-door, and special-*régime* colonies. Although there are some exceptions, those of the first group have the same tariff as the mother country, and with France they not only have free trade, but are assimilated into a common customs union. These colonies are Algeria, Indo-China, Tunis (in part), Madagascar, Reunion, Martinique, Guadeloupe, New Caledonia, French Guiana, and Gaboon. In the second group, the open-door colonies, there are very low, or no, tariff duties. Generally, their goods pay the minimum rates when imported into France, but there are a few special preferences. These colonies are Morocco, French Somaliland, Dahomey, the Ivory Coast, French India, and Equatorial Africa outside of Gaboon; to these French tariff policy adds also the New Hebrides.<sup>12</sup> Those of the third group, the special-*régime* colonies, have special tariffs containing some preferences. They are West Africa (excluding Dahomey and the Ivory Coast), Oceania, and St. Pierre and Miquelon.

The assimilated colonies are France's most important colonies. As they are in customs union with France and levy, therefore, the high duties of the French tariff on foreign goods, the discrimination in favor of French and French colonial products is 100 per cent. In the special-*régime* colonies the relative discrimination is equally great but the rates are lower.

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<sup>12</sup> The New Hebrides are under the condominium of France and Great Britain and are not technically a French colony.

## OPEN DOOR AND COLONIAL TARIFFS

In French markets the products of the assimilated colonies (except pepper and sugar) are given a preference of 100 per cent. On imports of certain articles from some of the open-door and special-*régime* colonies preferences are allowed.

Article IV of the Treaty of Paris, which in 1898 brought to a close the Spanish-American War, provides:

The United States will, for the term of ten years from the date of the exchange of the ratifications of the present treaty, admit Spanish ships and merchandise to the ports of the Philippine Islands on the same terms as ships, and merchandise of the United States.

Connected with this Article occurs probably the first mention in American diplomatic correspondence of the words "the open door." The protocol shows that the Spanish commissioners asked:

Is the offer made by the United States to Spain to establish for a certain number of years similar conditions in the ports of the Archipelago for vessels and merchandise of both nations, an offer which is preceded by the assertion that the policy of the United States is to maintain an open door to the world's commerce, to be taken in the sense that the vessels and goods of other nations are to enjoy or can enjoy the same privilege which for a certain time is granted those of Spain while the United States do not change such policy?

The American commissioners replied:

The declaration that the policy of the United States in the Philippines will be that of an open door to the world's commerce necessarily implies that the offer to place Spanish vessels and merchandise on the same footing as American is not intended to be exclusive. But, the offer to give Spain that privilege for a term of years, is intended to secure it to her for a certain period by special treaty stipulation whatever might be at any time the general policy of the United States.

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Article IV of the Treaty of Paris was not included in the original proposal of the American commissioners, but was granted as a concession after a prolonged debate over the disposal of the islands. A revision of the Philippine tariff was undertaken almost immediately, and as soon as a draft was prepared, it was sent to the War Department and from there distributed among American exporters with requests that suggestions be made. These suggestions indicated means of classifying goods so as to provide a concealed discrimination for American goods.<sup>14</sup> Many of these suggestions were accepted. Colonel Edwards, Chief of the Bureau of Insular Affairs, said of it:<sup>15</sup> "While no different duty in favor of American products is openly mentioned, the articles were so described in the tariff as to allow an advantage to American goods."

The Ways and Means Committee in presenting a revision bill to Congress on February 13, 1905, said:<sup>16</sup>

The general purpose of the bill, as of the former Act, is to give the United States what benefits there are arising from classification of goods. There is no preference in rates given to goods coming from the United States for the reason that by the terms of the treaty of Paris Spain would have the right to a similar preference on goods imported from Spain to the Philippine Islands until January, 1909.

Certain open preferences were also allowed on raw materials exported from the Philippines in which certain manufacturing concerns of the United States were interested. Upon the production of evidence of consumption in the United States, the Philippine export tax on hemp was refunded, and on copra, sugar, and

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<sup>14</sup> Sen. Doc. 171, 57th Cong., 1st Sess.

<sup>15</sup> *Washington Post*, December 11, 1901.

<sup>16</sup> House Report 4600, 59th Cong., 3d Sess.

## OPEN DOOR AND COLONIAL TARIFFS

tobacco the import tax was decreased by the amount of the export tax.

The United States Tariff Act of 1909 established free trade between the Philippines and the United States with a few exceptions (which were practically all omitted from the Tariff Act of 1913); that is, no import duties were to be assessed on domestic products of either the United States or the Philippines when entering the ports of the other. Thus Congress definitely abandoned the open-door policy. For some years prior to 1909 there had been a few preferences to such Philippine products as sugar. The Philippine Tariff Act of August 5, 1909, enacted by the United States Congress, contains the rates of duty that are to be levied on imports in the Philippines from countries other than the United States. The tendency of this Tariff Act, it is said, was to exclude foreign competition with American products in the Philippines, and the Act was, therefore, opposed bitterly by some classes in the Islands.

The preceding brief review of colonial systems indicates a variety of attitudes toward the open door in tariff making. In the colonies of Great Britain, The Netherlands, and Germany, from various motives, no preferences were established in favor of the mother country, and colonial goods were accorded the same treatment as foreign goods in the markets of the mother country. Spain, Italy, France, and the United States have, on the other hand, pursued a policy of preferences, and have endeavored to direct trade to their own advantage by means of discriminatory rates. This should not be taken as a classification of "saints and sinners." The adoption of the open door in tariff legislation is not necessarily evidence of a liberal position. Germany

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adopted it at the same time that her Colonial Secretary, Dernburg, was saying that colonies are "an instrument of commercial policy." The open door has been a policy favorable to the world-wide trading interests of Great Britain, and in order to be in a position to urge it elsewhere, she necessarily had to adopt it in her dependent colonies. The Netherlands in spite of their open-door policy have managed by other means—for example, shipping—to retain the greatest share of the trade of their colonies.

Nevertheless, the principle of the open door is the correct one, and the international conferences and the agreements that have proclaimed it are precedents for future action. The open-door principle is the antithesis of the policy that colonies exist for the exclusive benefit of the mother country. It recognizes the interests of outside nations and of the colony itself. Colonies should not be "an instrument of commercial policy." Too frequently they are so regarded. The open door in import tariffs is desirable, but no more desirable than the open door in export tariffs, navigation, and investment. Nations that congratulate themselves on equality in tariff matters may, nevertheless, so bar and bolt the door in other fields that it makes little difference whether the door is opened or closed in the tariff schedules. Colonial monopoly can be maintained by navigation laws, by Government ownership and control of lands and companies, by exclusive trading concessions, and by restrictions on investment.

If there is one thing that the war should end forever, it is colonial monopoly and the exploitation of outlying parts of the world by nations that control them politically. The defeat of Germany and the breaking up of the Russian and Turkish Empires have greatly increased

## OPEN DOOR AND COLONIAL TARIFFS

the areas for which the Allied Powers will have to provide administration. Central Africa, Asia Minor, Syria and Mesopotamia, and parts of the Russian Empire must not be permitted to become the exclusive trade and investment preserves of any power. Colonies should be regarded, and are regarded by the most advanced nations, as trusts which they are called upon to administer. Preferences enjoyed by the trustee are inconsistent with the trusteeship.

## CHAPTER XVI

### PREFERENCES — AN INTERNATIONAL PROBLEM

Economic effect of tariff preferences—Spirit in which the problem should be approached—Undesirableness of discriminatory treaties between nations—Of tariffs favoring the mother country in dependent colonies—Of British preferential tariffs—Necessity for international agreement—Concealed discriminations—Possible grounds for exception to the rule of equality of treatment—An International Tariff Commission proposed—Its powers and duties.

“Equality of trade conditions”<sup>1</sup> can be achieved only by the removal of discriminatory economic barriers such as special reciprocity treaties, preferential arrangements, and tariffs that establish lower rates for the goods of colonies and the mother country than are paid by foreign goods. Such discriminations obviously involve world interests; they are, therefore, subjects for international discussion, and perhaps decision. No doubt their economic value to the favored nation and their material injury to the excluded nations have been exaggerated. Nevertheless, the nations discriminated against are aggrieved. Whether rightly or wrongly, they think they are injured. Suspicion arises. Retaliation is planned and put into effect. Trade wars follow, and bitterness and hostility are engendered between peoples. It can no longer be said that a special discriminatory treaty between two peoples is their concern alone. Nor can it be said that preferences between

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<sup>1</sup> President Wilson in his address to Congress on January 8, 1918, advocated, as the third of his 14 points, “the removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all nations consenting to the peace and associating themselves for its maintenance.”



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a nation and its colonies are purely domestic problems. To take such a position is simply to refuse to face squarely one of the most fruitful sources of international friction. The disposal of the matter depends fundamentally upon the spirit in which nations come together for the consideration of preferences. If the spirit is that of selfishly seeking to hold to every material advantage that political power for the moment makes possible, no substantial progress will be made, and the world will settle back into the old fatal circle of discriminations, trade rivalries, hostility, and war. If, however, nations recognize that they are faced with the need for revolutionary action, if the spirit which guides is that of a willingness to give up something in the interests of world harmony and goodwill, we may hope for a genuine solution of the perplexing problem of discriminatory barriers.

Something should be said at the outset on the economic effect of preferential arrangements and special reciprocity treaties. Preferences may be, but are not necessarily, beneficial to the consumer; they may be subsidies to the producer in the exporting country. The well known economic principle that prices are determined by the cost of the last portion of the supply of a commodity obtained is governing. Quantity and quality of the goods receiving the preferential treatment are also important factors. Three possible cases may be distinguished where the discrimination takes the form of the application of additional duties on the products of non-favored countries.

When the commodities of a nation enjoying a preference in another country or in its colony would, because of their superiority in quality and price, dominate the

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market even without the preference, the result of a higher, discriminatory tariff on goods of a third nation would be negligible; tariff rates on goods not enjoying the preference would be merely nominal, and the articles would sell to the consumer on the basis of the lower duties. Thus, American products that dominated the Philippine market without the preference sell there under the preference on the basis of free imports. It should be added that this would not happen unless there were free competition. If a combination controlled all of the products enjoying the preferences, it would be enabled to raise the price substantially by the amount of the preference, and the benefits of free competition would not accrue.

In the case of those commodities enjoying preferential treatment that under equal treatment could not enter the market, but under a preference enter in amounts which are substantial but not sufficiently great entirely to displace non-favored imports, the higher discriminatory rates on the same commodity from other sources would operate as a full subsidy to the producers receiving the preference at the expense of the consumer; that is to say, prices would be determined by the imports of that portion of the commodity that paid the higher discriminatory rates. Thus in the case of goods imported into New Zealand, a portion of which come from the United States and a portion at lower rates of duty from Great Britain, the New Zealand consumer pays a higher price in consequence of the higher duties on the American imports, and the tariff preference measures the subsidy to the British producer on each of his products imported.

Commodities enjoying a tariff preference that are dearer than similar products paying the higher discrim-

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natory rates, and yet are able, by virtue of the tariff preference, entirely to displace them in the market, command a higher price in the favoring market than they would if imports from all countries paid the same tariff rates. In such a case, as, for example, British products imported into Canada under the preference which could not be imported profitably otherwise, the consumer loses without there being any corresponding increase in the public revenues. Here again, as in the second case, the increase in price to the consumer measures the subsidy to the favored producer. But in this case the amount of the subsidy would probably be somewhat less than the amount of the preference unless the favored producers were in close enough agreement to extort from the consumer the full benefit of the higher rates on the products of their non-favored competitors.

In all of these cases it is true that whatever benefit accrues to the favored producer is at the expense of the consumer in the country granting the preference. Where the preference takes the form of a reduction of duties on imports from a favored country instead of the application of additional duties to imports from non-favored countries, the method of operation and the effects of the preference are different in detail but similar in general results. Whereas under preference by additional duties on non-favored imports, the subsidy to the favored producer is borne by the consumer, under preference by reduced duties on favored imports the burden of the subsidy to the favored producer is borne by the treasury of the country granting the preference, in the form of reduced customs revenue.

Not the least among the important problems with which the peoples of the nations are confronted are the

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scope of the most-favored-nation clause in commercial treaties, the limitations upon the use of special reciprocity treaties and preferential tariffs within empires, and the use of customs unions. Probably the first question which will have to be faced in considering these policies will be whether or not they may be dealt with internationally at all. In spite of the fact that experience has insistently demonstrated the need for international treatment, some may take the position that special reciprocity treaties between nations and preferences within empires are no concern of third parties. Instead of applying further the principle of equality of treatment to the relations of nations, the adoption of an opposite policy has been suggested. In the resolutions of the Paris Economic Conference<sup>2</sup> it was agreed to deny the Central European Powers most-favored-nation treatment for an indefinite period of years. Russia, France, and Italy have denounced their commercial treaties containing the unconditional form of the most-favored-nation clause.

Before the war nations had come to recognize generally the undesirability of special reciprocity treaties. Even the United States after its varied experience with them abandoned in 1909 the policy of bargaining for exclusive favors. The Brazil agreement survived more from inertia than from deliberate policy, and Cuba was a special case which will be considered later. In Europe special reciprocity treaties between nations were all but unknown. By means of a network of commercial treaties containing the unconditional form of the most-favored-nation clause, concessions made by one country to another were immediately and without negotiation extended to all other nations entitled to favored treatment. Nations learned from experience that the most

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<sup>2</sup> Appendix II.

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any one of them could expect in the long run was equality of treatment. Special favors always led to retaliations which more than destroyed the advantages of the special concessions. European nations found it in line with the interests of each to adopt a general principle that would automatically maintain equality in their tariffs. Recognizing then the possibilities of the violation of the spirit of the unconditional form and interpretation of the most-favored-nation clause,<sup>3</sup> its general adoption by all nations is unquestionably the first step in the construction of a policy of equality of treatment among nations. Because a good rule is evaded is an argument, not for its abandonment, but for its more rigid enforcement. Now that the United States is to take a more active part in the affairs of the world, and that too as a champion of the principle of equality, it cannot consistently retain the conditional form and interpretation of the most-favored-nation clause.

Nations before the war found it expedient to go still further in establishing equality of treatment. Great Britain, The Netherlands, and Germany extended it to their dependent colonies. At international conferences and in treaties the open door was agreed upon for large portions of the earth's surface, but usually for countries where no single nation had more than a shadowy claim to exclusive political control, or where the local government, although theoretically independent, was ineffective. As a post-war policy, would it not be feasible to extend the principle? Great areas of Asia, Africa, the Pacific Islands, and America will have to continue indefinitely in a position of dependence upon the strong powers. The breaking up of the Russian and Turkish Empires

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<sup>3</sup> See Chapter X.

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has added to this area. Asia Minor, Syria, and Mesopotamia must have some tutelage before they are ready to assume self-government. These dependent parts of the world should not be the exclusive preserves of any nation. Narrow colonial policies were too much a contributing cause of the war for the nations to permit them to continue. The development of the backward parts of the world economically and in self-government is a matter of international concern. If international control of them does not prove feasible now, it should be made clear that the nation vested with political control of a dependent country is in the position of a trustee and is answerable to the League of Nations for the performance of its trust. From this it would follow that the mother country should have no preferential treatment in the tariffs of the colony or protectorate. As they are international wards, the trade of the dependent parts of the world should be open equally to all.

In any consideration of equality in tariff matters the preferential tariffs of the self-governing British dominions cannot be passed over. These political divisions of the world — Canada, Australia, New Zealand, and the South African Union — are *sui generis*. Nothing like them exists anywhere else. They are not "colonies" in the old sense of that word. Except for a theoretical veto retained by Great Britain but now never exercised, they have complete domestic autonomy. They may enact any legislation they desire, including tariff laws that exclude British goods for the purpose of developing their home manufactures. On the other hand, they have not fully the status of "nations." Their foreign affairs are in large part conducted from London, where their voices are having an increasing influence. They must adhere

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to the treaty obligations of Great Britain even if the terms of those treaties conflict with their domestic legislation. In spite of these limitations, however, the self-governing dominions of the British Empire have many of the characteristics of "nations." Canada was allowed practically a free hand in negotiating the reciprocity agreement with the United States in 1911. The relation between Great Britain and the self-governing Dominions has been referred to<sup>4</sup> as the "Britannic alliance" and as "an alliance of free nations." In the Covenant of the League of Nations these Dominions are admitted as units with all the rights of independent nations. They cannot, it would seem, claim this position of equality with independent nations and still retain the right to discriminate against their copartners in the international organization. Argument from analogy cannot, it is true, alone decide the wisdom of the preferential tariffs of the British Empire. But comparisons suggest themselves. In their economic effect there is no difference between preferences granted by Canada and Australia to Great Britain and preferences granted by Brazil to the United States, and politically one may be as much a source of international ill-feeling as the other. Penalty duties levied by the United States against certain countries for the purpose of getting special favors are not wholly unlike the surtax which New Zealand levies on all foreign goods while granting to British goods the lower duties in the general tariff. From an international standpoint there is not a fundamental difference between preferences established by self-governing parts of the British Empire and special reciprocity arrangements between nations.

This argument, however, is not pressed as conclusive.

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<sup>4</sup> Reconstruction Programme of the British Labour Party.

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It is intended merely to be suggestive. The real question is one of desirability. Is it wise for the British Empire to attempt to monopolize trade by means of preferential tariffs? It is doubtful whether even from Great Britain's standpoint such a course is desirable. Arguments based on political and sentimental ties are not likely to be convincing with excluded peoples, and the resentment against the British Dominions because of their discriminatory tariffs will increase. From an international standpoint preferences between widely separated and different political divisions of an empire are as undesirable as reciprocity between nations, and if the British Empire should insist on preferential arrangements, it is hardly in a position to ask other nations to give up their discriminatory measures.

The crucial question in considering tariff discriminations is this: Shall unconditional most-favored-nation treatment be accepted as the principle to guide nations in their dealings with each other? If the answer to this question is in the negative, it will be a recognition of the right of every nation to make such special or exclusive tariff arrangements as it can. If the answer is in the affirmative, as it should be, it would seem to be desirable that the self-governing dominions of the British Empire, which are "nations" so far as fiscal policy is concerned and under the Covenant of the League of Nations should accept the responsibility of "nations" within the meaning of the unconditional form of the most-favored-nation clause.

Out of the war should come a recognition of the principle that tariff discriminations are contrary to international wellbeing. There should be an end to national narrowness. An attitude of justifying one nation's shortcomings by pointing to those of another should be



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ended. The subject of tariff discriminations should be approached from the standpoint of the world's welfare. The most that any one nation can expect to have is equality of treatment. Preferences may profit for a time, but in the long run they are injurious to the parties immediately affected, and they are clearly objectionable from the standpoint of world commercial policy.

Preferential tariff treatment should be a subject for general international agreement. No one nation is at fault, and none should be asked to act alone in the abandonment of a discriminatory policy. The principle of the open door should be recognized as applicable to all dependent parts of the world, and the unconditional form and interpretation of the most-favored-nation clause should be accepted as binding on the British dominions as well as on nations. If then there are to be any exceptions to the general rule of equality of treatment, either by preferential tariffs or customs unions, these should be passed upon by an international conference. But we must not stop here. Machinery must be devised for making these principles effective. The principle of equality of treatment may be nullified, as it often has been, by open exceptions insisted upon by individual nations and by concealed discriminations.

Concealed discriminations constitute one of the methods by which the principle of equality of treatment may be made ineffective. Their existence has led some public men to despair of the general application of the principles of the open door and unconditional most-favored-nation treatment. Critics have said with considerable justification that nations that carry out their international obligations in good faith are at a disadvantage in competition with nations that do not hesitate to evade

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the spirit while accepting the form of equality of treatment. Concealed discriminations, as has already to some extent been pointed out, may be found in tariff classifications by means of which commodities that are peculiarly the product of one country are favored under an appearance of equality; by the undervaluation of home products sent to colonies; by discriminatory customs and sanitary regulations; by unequal port and navigation rules; by the Government ownership of land and trading companies in colonies; by exclusive concessions to private corporations; and by the even more subtle method of financial and political control. Faced with these conditions, some public men have proposed to abandon the equality-of-treatment principle and to attempt the use of retaliatory measures for the purpose of obtaining the removal of concealed discriminations. In clear cases such a step would no doubt be justified, but a general acceptance of such a principle would drive the world backward into the old vicious circle of trade rivalries, discriminations, and war. Much more desirable is it for nations, recognizing the desirability of the equality-of-treatment principle, to devise means for making it effective by supplementing it with machinery that will ferret out and bring into the open objectionable and concealed discriminations. Publicity itself will remove many of them. To others may be applied penalty duties in case negotiations fail.

The most controversial phase of the subject of equality of treatment relates to the exceptions that it is claimed are justified under it. Cases undoubtedly exist where geographical or political ties, or the two together, justify, even from an international standpoint, preferential arrangements or a customs union. Among these may be

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mentioned the United States, where the states are contiguous geographically and bound together by an indissoluble political union; the *Zollverein* established among the German States in 1834;<sup>5</sup> and the customs union of the states of Australia. A customs union or preferential tariffs would also be justified among the states of Central America. If eastern and southeastern Europe is in the future broken up into small nations in order to satisfy the many national aspirations of those peoples, their vital interests may require the adoption of a common commercial policy among them. Cuba and Hawaii are economically a part of the United States and are bound to this country by peculiar political ties. To refuse in their case a close economic union with the United States would be unjust to them. Even Algeria may perhaps reasonably claim inclusion in a customs union with France. Just where the limit to the establishment of customs unions and preferential arrangements shall be placed depends upon what is desirable from the standpoint of international goodwill. The interests of weak political units dependent upon others and the fundamental political and geographic relationships should be carefully weighed. It is reasonable to suggest, however, that mere political ties between political units widely separated is not alone sufficient to justify preferences. From the standpoint of world harmony, then, no justification can be found for preferences, for example, between the United States and the Philippines, between Great Britain and Australia, Italy and Eritrea, or France and Indo-China.

It is one thing, however, to admit that exceptions are

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<sup>5</sup> It was gradually extended to include more German states and was completed in 1871. Hamburg and Bremen were added in October, 1888.

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necessary and quite another to determine what the exceptions are to be. If each nation is left to determine independently what exceptions to the general rule should exist, the general treaty will put us little further ahead than we are today. Plausible grounds, geographic or political, can always be alleged for preference, and the exceptions will destroy the rule. Here, as in the case of concealed discriminations, we have a problem for international investigation and possible decision.

The need for investigation and control with reference to concealed discriminations and possible exceptions to the equality-of-treatment principle makes highly desirable the establishment of an International Tariff Commission under the League of Nations. In the past, when bargaining between nations failed to remove discriminations, or when negotiations resulted in no agreement as to the scope and interpretation of the most-favored-nation clause and as to exceptions to the rule of equality of treatment, there was a deadlock. The only recourse available was trade war, and this course, if pursued, usually failed. No organization existed that could act as an arbiter and that was interested in the international aspect of the problem. We have come to see that not only the nations directly involved, but every other nation, is interested in the amicable adjustment of trade difficulties. An International Tariff Commission, if it were merely a clearing house of information, would justify its existence. Certainly the world needs an organization that will take up differences when ordinary negotiations fail and that will be in a position to propose a solution before these differences lead to hatred and hostility.

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An International Tariff Commission to do effective service need not at first have more than investigatory and advisory powers. It should publish authoritative texts of all the tariffs of the world in the important languages of commerce, as is already done by the International Union for the Publication of Customs Tariffs at Brussels.<sup>6</sup> It should investigate concealed discriminating tariffs and regulations, and in case its mediation failed to remove any discriminations found, it should be authorized to give them full publicity in order that they might be corrected either by penalty duties imposed by the countries discriminated against, or by joint international action. It should investigate the operation of the most-favored-nation clause and assist in its interpretation and in carrying out its spirit as well as its letter.

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<sup>6</sup> The International Union for the Publication of Customs Tariffs was formed by a general international convention signed at Brussels on July 5, 1890. This convention, to which the United States and practically all other countries are partners, is binding for successive periods of seven years, but is subject to revision at any time. Any nation may withdraw by notice given 12 months before expiration of any seven-year period.

The object of the Union is to publish at the common expense and as promptly and accurately as possible all customs tariffs of the various countries of the world, and any modifications thereto from time to time. To this end an International Bureau has been organized at Brussels, which is charged with the publication of the *International Customs Bulletin* in the following five languages: English, French, German, Italian, and Spanish.

In order to facilitate prompt and accurate publication of the tariffs at the various countries, each contracting state agrees to send to the Bureau at Brussels two copies of its customs laws, tariffs, and any regulations, orders, or instructions concerning application of its tariff schedules, classification of goods, or other matters affecting the interpretation or execution of its tariff laws; also copies of commercial treaties, international conventions or agreements, and domestic laws having a direct bearing on existing tariffs.

The annual budget of expenditures by the International Bureau is fixed by the convention at the maximum of 125,000 francs (about \$25,000), actual expenses being shared by the various countries in stated proportions according to the amount of their commerce.

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It should study the economic effect of proposed exceptions to the principle of equality of treatment and report whether or not they are warranted from an international standpoint. These and similar questions open an ample field for the activities of an International Tariff Commission. Without such machinery the open-door principle and the unconditional most-favored-nation clause, even if written into the final treaties of peace, are in danger of being evaded and their spirit destroyed.

An International Tariff Commission may be given another field of investigation which would contribute to fair tariff making throughout the world. It would not have, as has been said, any power over the minimum level of tariffs adopted by individual nations. But it may be given power to collect data on competitive conditions in each country and to publish comparative reports. A nation today seeking to levy a fair tariff<sup>7</sup> finds it difficult to obtain foreign information. If comparable data on prices, costs, and other conditions were collected by an International Commission, they might be used by individual nations in formulating such tariffs and such anti-dumping legislation as their domestic needs may require. In order to make such investigation effective, each nation would have to agree to permit the Commission to use the national authority to collect information from which figures for purposes of publication might be deduced.

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<sup>7</sup> See Chapter VII.

## CHAPTER XVII

### FOREIGN INVESTMENT AND CONCESSIONS

Foreign investments—Of Great Britain—Of France—Of Germany—Of the United States—Use of foreign investments in highly developed countries—Alien Property Custodian in the United States—German world-wide control of non-ferrous metals—German finances in Italy—Policy to be pursued—The alliance between export trade and foreign investments—Methods making it effective—Need for international regulation—Political significance of the exploitation of undeveloped regions—Exclusive concessions and the open door—The Congo—The British in the Caribbean—Conflicts between financial interests and weak Governments—British in Egypt—French in Morocco—Haiti and Dominican Republic—Italy in Tripoli—The Boer War—Political aims and finance—Russia in Persia—The Bagdad Railway—Concessions in China—Manchuria—The Twenty-One Demands—China in the world politics of the future—Necessity for international supervision—Failure of imperialism—Of the *laissez-faire* policy—Nature of international control.

In all communities that have attained a fair degree of civilization some of the people are able to save something from their income for permanent investment. If the community in which they live is growing and developing, if it is diversifying its industries, it is likely that opportunity for profitable investment can easily be found at home. If, on the contrary, the community is already highly industrialized and public improvements well developed, investments there will yield a relatively lower rate of interest than in less advanced parts of the world. Many investors, therefore, in Great Britain, France, Germany, Belgium, Switzerland, and The Netherlands, frequently, through large financial houses, have placed their savings in enterprises in foreign countries. The great majority of these investments are merely commer-

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cial ventures with no political significance; nevertheless, the world-wide interlocking of financial control and its use, particularly in countries with weak Governments, to further political ambitions are facts of first importance in world affairs.

For very obvious reasons it is difficult even to estimate the amount of capital invested in countries foreign to the investor. Estimates have been made by capitalization of incomes reported on income-tax returns as coming from abroad, by tabulating security issues, and by a study of exports, imports, interest, freight, and other factors in trade.<sup>1</sup> Each of these methods has its defects, but estimates thus arrived at are at least suggestive of the significance of investments in world commercial policy.

The Federal Trade Commission, following the investigations made by Sir George Paish, concluded that British investments outside the British Isles, that is, in the Dominions, the colonies, including India, and foreign countries, amounted at the outbreak of the war to not less than \$17,500,000,000, and very probably to \$20,000,000,000.<sup>2</sup> A large percentage of these investments is in conservative ventures, such as railroads, municipal improvements, telegraphs, canals, port works, and banks. This conservatism is shown by a classification of the \$100,000,000 worth of American stocks and bonds offered in 1916 as partial pledge for the war loan floated in this country. There were 360 different railway securities, 88 public-utility, 47 industrial and miscellaneous, and eight municipal. The railroads of the United States,

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<sup>1</sup> Federal Trade Commission, *Coöperation in American Export Trade* (1916), vol. i, p. 67.

<sup>2</sup> *Ibid.*, p. 71.



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in fact, were formerly dependent in a large degree upon British capital for their development. To a much greater extent this is still the case with the railway systems of Argentina. But the investors of Great Britain by no means confine themselves to one form of investment. British capital enters a variety of enterprises all over the world. It is invested in mines, nitrate beds, oil wells, plantations, mortgages, and manufacturing concerns. British investments in rubber plantations amount probably to \$350,000,000, and in tea plantations to \$150,000,000. Britain's influence as an investing country is further enhanced by the fact that her capital controls many enterprises in which a portion of the capital is furnished by citizens of other nations.

Next to Great Britain, France has long been the largest foreign investor. French holdings of foreign securities in 1910 have been placed at a minimum of \$8,000,000,000.<sup>3</sup> This excludes French investments not represented by stocks and bonds. It is conservative to say, therefore, that the foreign investments of the French at the outbreak of the war were roughly \$9,000,000,000. The French are very conservative investors, confining themselves primarily to Government and municipal issues which bear a fixed rate of interest. Their investments are well distributed over the world, although the most important field by far has been Russia. At the beginning of the war they held approximately \$1,750,000,000 in Russian securities. Their capital, however, was invested also in Egypt, Austria-Hungary, South America, Spain, Turkey and Italy.

German foreign investments at the time of the outbreak of the war were rapidly approaching the French in amount. They were estimated roughly at from

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<sup>3</sup> *Ibid.*, p. 71.

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\$7,500,000,000 to \$8,500,000,000.<sup>4</sup> Germany's influence in foreign investments was due, not so much to the volume of investments, as to the way in which they were used to advance German commercial and political interests. Her investments were widely distributed and in enterprises more speculative than those sought by the British and the French. They were not infrequently made in remote places where, although the risks were greater, the opportunities of reward were larger. They were made deliberately with the object of building up trade and frequently had an industrial and political as well as a financial significance. A leading German authority says:<sup>5</sup>

In this connection it must be remembered what important political results have been brought about by the granting or refusing of loans to foreign States and to what extent the Home Government may use for political purposes its power of permitting or prohibiting the issue, official listing and pledging of foreign securities, especially at times when the foreign State, either because of the closing or overstocking of foreign markets, is confined to our exclusive assistance and when it is in our power to inflict great damage on it by our refusal or prohibition. The skirmishes of the political advance posts are fought on financial ground, though the selection of the time and the enemy, as well as the manner in which these skirmishes are to be fought, depends upon those responsible for the direction of our foreign policy. Much more than ever before, we Germans will have to bear in mind that industrial contracts, commercial enterprises, and capital investments are conveying from one country to another not only capital and labor but also political influence.

The Bagdad Railway was Germany's most important single venture. A large amount of capital, however,

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<sup>4</sup> *Ibid.*, p. 72.

<sup>5</sup> J. Riesser, *Die Deutsche Grossbanken und ihre Konzentration* (Jena, 1910), p. 401.

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was invested in electrical and chemical industries in foreign countries, in shipbuilding in Russia, in engineering and electrical enterprises in Russia and South America, in iron mining in Scandinavia and Spain, and in gold in Siberia.

The United States was a debtor nation before the war — was indeed the world's greatest borrower. It was estimated by Sir George Paish in 1910 that about \$6,500,000,000 of foreign capital was invested in the United States, somewhat over half of it being British and most of the rest German, Dutch and French. Even at that time, however, Americans had invested about \$2,000,000,000 abroad — \$700,000,000 in Mexico, \$500,000,000 in Canada, \$350,000,000 in Europe, and smaller amounts in Cuba and Porto Rico, South America, China and Japan, the Philippines, and Central America.<sup>6</sup> Foreign loans were increasing rapidly. John Barrett estimated in 1913 that Americans had invested over \$1,000,000,000 in Mexico, and the Canadian *Manufacturers' Record* estimates that American interests in Canada amounted to about that much at the beginning of 1917.<sup>7</sup> In Mexico two-thirds of the investment is in mines. In Canada, before the war, it was in a variety of industrial enterprises, but since that time it has gone largely into Canadian securities. The Singer Sewing Machine Company and the International Harvester Company are large exporters of capital to Europe. Other cases of American investments abroad have already been cited.<sup>8</sup>

During the war large cash advances were made and credits established for the Allies which made the United

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<sup>6</sup> Charles F. Speare, *North American Review*, July, 1909.

<sup>7</sup> *Manufacturers' Record*, December 28, 1916.

<sup>8</sup> See Chapter XI.

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States a creditor nation. These advances and credits between April 24, 1917, and November 15, 1918, were:\*

Country	Credits Established (000 omitted)	Cash Advances (000 omitted)	Other Charges against Credits (000 omitted)	Balances under Established Credits (000 omitted)
Belgium	\$192,520	\$173,380	.....	\$19,140
Cuba	15,000	10,000	.....	5,000
France	2,445,000	1,970,000	\$200,000	275,000
Great Britain	3,945,000	3,696,000	.....	249,000
Greece	15,790	.....	15,790	.....
Italy	1,210,000	1,051,000	.....	159,000
Liberia	5,000	.....	.....	5,000
Rumania	6,667	.....	5,000	1,667
Russia	325,000	187,730	.....	137,270
Serbia	12,000	10,605	.....	1,395
Total	\$8,171,977	\$7,098,715	\$220,790	\$852,472

Foreign investments when made in a country with a strong government such as the United States are not ordinarily accompanied by any political or other extraneous complications. They are usually in stocks and bonds of public utilities or industrial corporations and are nothing more than financial ventures. In so far as this is the case, they are desirable. Many of our largest enterprises have been made possible largely through foreign capital. Foreign investments in the United States have not, as a general thing, been made with ulterior purposes. Individuals have simply sought to profit by the larger financial returns yielded by enterprises in this country.

Foreign capital, however, has been invested in vital commercial enterprises of even the most highly developed countries with the ulterior purpose of moulding busi-

\* Annual Report of the Secretary of the Treasury, 1918, p. 36.

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ness or even political conditions or of gaining unfair trade advantages over competitors. In such cases, which, it is true, are not many, the investments become matters of national concern. The possibilities and significance of building up influence with a foreign country through investments were scarcely thought of until the war disclosed the extent to which German interests had insinuated themselves into the industrial life of the United States and other Allied countries.

After the United States declared war on Germany, Congress provided for the appointment of an Alien Property Custodian with power to take over and hold as trustee the property in the United States of "enemies" as defined by law.<sup>10</sup> He took over "enemy" property valued at over \$800,000,000.<sup>11</sup> More significant than the amount, however, is the use to which some of these investments were put. The Alien Property Custodian states, for example, that German influence insinuated itself into certain American non-ferrous metal industries by the control of the principal metal and smelting companies in the United States, either by complete ownership of stock or such partial ownership as to give German interests substantial representation on the boards of directors. In fact, the German control of non-ferrous metals was world-wide. Speaking of it the *British Board of Trade Journal* says:<sup>12</sup>

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<sup>10</sup> The duties and powers of the Alien Property Custodian are prescribed in the Trading-with-the-Enemy Act, and Paragraphs XXIX to XXXIV, both inclusive, of the Executive Order under date of October 12, 1917, and in the Executive Order under date of October 29, 1917. For an account of the operations of the Alien Property Custodian see, in this series, Louis E. Van Norman, *War Time Control of Commerce*.

<sup>11</sup> A. Mitchell Palmer, "German Business our Indemnity," *The Nation's Business*, February, 1919, p. 26.

<sup>12</sup> *Board of Trade Journal*, October 31, 1918, p. 545. For an

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Before the War the world's market for non-ferrous metals was largely controlled by a group of German metal companies, engaged primarily in buying metals or in acting as selling agents for producers. These companies were closely connected by stock control, the inter-ownership of stock, interlocking directorates or joint syndicates, their relations being of such a nature as to lead to a common policy in respect to the purchase and sale of metals.

The most important of these concerns was the Metallgesellschaft, of Frankfort-on-Main, which combined with certain German metallurgical and financial interests to found in 1910 the Metallbank and Metallurgische Gesellschaft, of Frankfort-on-Main, with a capital of £2,000,000. This last-named organisation, either directly or through its constituent concerns, had by the outbreak of war established, or acquired, controlling financial interests in metal dealing, mining or working companies or chemical-metallurgical companies in Germany, Austria, the United Kingdom, France, Belgium, Switzerland, Holland, Spain, Australia, Africa, Mexico, and Italy.

Distinct from the Metallgesellschaft group of companies, but closely associated with the same interests and with each other in various syndicates and combinations, were Beer Sondheim and Company, of Frankfort, with interests in companies in Germany, Austria, Italy, Belgium, France, and the United States; and Aron Hirsch and Company, of Halberstadt, which also had subsidiary companies in various countries.

As illustrations of the activities of the German group of associated undertakings there may be mentioned the International Lead Convention and the International Spelter Convention, both of which were formed by the Metallgesellschaft. The position of the German interests was so strong that they were able to force the smelters of these metals in other countries into those conventions, which regulated the world's prices; and by controlling the market the German interests were able in some cases to restrict the development of the smelting of the metals elsewhere than in Germany.

The position which the German companies occupied before

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account of this control as it affected the United States see, in this series, George Otis Smith, *The Strategy of Minerals*.

## FOREIGN INVESTMENT

the War in respect of various metals had been attained in a variety of ways. In some cases there was actual ownership of, or participation in, mining companies; in others there were long-period contracts for the purchase of the output of mines; there were interests, frequently of a controlling nature, in refining and smelting companies; sole selling agencies of refined metals had been secured in some instances; and there were international price agreements, of the kind already referred to, into which producers and traders had been forced by the great competitive strength of the German groups.

The influence of the German metal organisations was very extensive in the case of zinc and lead (*e. g.*, they controlled by long-period contracts the output of Australian zinc concentrates, the raw material of spelter); and there are indications that endeavors were being made at the time of the outbreak of war to acquire a controlling influence over other metals, particularly copper and nickel.

In her attempt to use financial control to further her own interest Germany invested not only her own capital, but that of other countries — often of the very countries which it was Germany's aim to dominate and exploit. The classic example of this is the case of the Banca Commerciale Italiana, founded at Milan in 1894, by means of which Germany gained control of the electrical, shipping and many other important industries of Northern Italy, although the actual amount of German capital involved was, after the system had become perfected, very small.<sup>13</sup>

The German policy of expansion resulted in the establishment of industrial colonies in the heart of foreign countries, especially in such partially developed regions as South America, Australia, and the Far East. These colonies maintained a connection with the home country, and gave assistance to German aims. A subsidized merchant marine, a network of foreign branch banks,

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<sup>13</sup> See Ezio M. Gray, *Guerra senza sangue*, Florence, 1916.

## COMMERCIAL POLICY

foreign branch factories, cartels which control the market, specialized tariffs and bargaining commercial treaties, lower prices and transportation rates for exported articles—all these devices have been used effectively by the Germans. They have also been used by other nations, but they formed a larger part of the national policy of Germany than of any other country with the single exception of Japan.

The dangers to the Allies incident to Germany's control of economic activities in their respective countries were recognized early in the war, and drastic measures were determined upon by the Paris Economic Conference of June, 1916. It was there agreed that the Allies should prevent subjects of the Central Powers from exercising within their borders "industries or professions which concern national defense or economic independence."<sup>14</sup> As a war-time measure such a policy is justified, but it should have no place in a peace programme. Financial boycott is as inconsistent with permanent peace as trade boycott. In Great Britain the Secretary of State for the Colonies excluded foreign capital from investment in the rubber lands of the Federated Malay States. Speaking of this case, the British Committee on Commercial and Industrial Policy after the War stated that obstacles should not be placed in the way of foreign capital's assisting in developing the resources of the Empire.<sup>15</sup> Free investment of capital is desirable in all countries from a national and particularly from an international point of view. Publicity will serve as a check to unfair use of investments. A few exceptional cases of essential materials or products exist in which a nation may be justified in retaining complete financial control

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<sup>14</sup> Appendix II.

<sup>15</sup> British Blue Book, Cd. 9035 (1918), p. 30.



## FOREIGN INVESTMENT

in its own hands. Such a ruling, however, should apply to all foreign capital, not to that of a particular country. The conclusion of the British Committee was as follows:<sup>16</sup>

As regards Alien interests in the sources of supply within the Empire we think that some Government control, which may take various forms according to the circumstances of each case, will be necessary in future in respect of a limited number of commodities of vital military importance. Apart from this limited class of cases we think that it would be unwise to aim at the exclusion of foreign (other than present enemy) capital from sharing in the development of the material resources of the Empire.

More important than the national problem that may arise from the investment of alien capital in a "key" industry for ulterior purposes is the international problem arising out of the close alliance existing between export trade and foreign investment. The export of capital, as is well known, has frequently been followed by the export of goods from the investing country. The interlocking of financial and industrial interests, not uncommon in all the leading commercial nations, characterized in particular the economic life of Germany. The German banks, such as the Deutsche Bank and the Dresdner Bank, were represented directly in the management of hundreds of industrial concerns. "Shortly before the present war the directors of the Dresdner Bank were on the boards of nearly 200 industrial companies. In 1910 the Deutsche Bank was represented on the boards of 116 German and foreign concerns, some of which are dominating factors in leading German and international cartels and combinations."<sup>17</sup> This close relationship between finance and production resulted

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<sup>16</sup> *Ibid.*, p. 61.

<sup>17</sup> Federal Trade Commission, *op. cit.*, vol. i, p. 62.

## COMMERCIAL POLICY

naturally in the use of investments in the promotion of German foreign trade. Nor was this practice confined to Germany. Large financial houses in other countries made their loans for the development of foreign enterprises dependent upon the purchase of supplies and construction materials from industries in their own country. Mr. Hurley cites the case of the French banking house of Perrier and Company, which had "made a loan of \$10,000,000 to the State of Minas Geraes (Brazil), the fund to be loaned out in turn by the State to various municipalities for the perfection of municipal improvements, such as tramways and electric lighting plants. The contracts executed between the State as lender and the municipality as borrower stipulated that when other considerations were equal preference should be accorded by the municipality to French materials, and that in such purchases the municipalities should avail themselves of the mediation of the house of Perrier & Co."<sup>18</sup>

The rivalry of the financial interests of nations for investments, loans, and concessions in foreign countries, particularly in undeveloped regions, has been keener because of the opportunities thus afforded to sell goods. Many factors contribute to make it probable that the country that finances a railroad, mines, oil fields, manufacturing, tramways, electric power plants, and other municipal improvements in another country will also provide the construction materials and supplies. Steel rails, machinery, electrical apparatus, and many other products are more often than not influenced in their sale by the investment of capital. The influence may be merely personal. A citizen of the investing country

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<sup>18</sup> Edward N. Hurley, "Banking and Credit in Argentina, Brazil, Chile, and Peru," Bureau of Foreign and Domestic Commerce, Special Agents Series, No. 90 (1914), p. 47.

## FOREIGN INVESTMENT

usually becomes manager of private enterprises which are developed abroad, or if the capital is loaned to a Government in an undeveloped region, the engineer is frequently a man from the lending country. It is natural that he should favor with orders those firms that he has known in his home land. This personal factor, however, is not as important as others. In some cases contracts, similar to the one of Perrier and Company already mentioned, are insisted upon at the time the loan is granted, provided that all construction materials, machinery, and supplies be purchased from firms in the investing country. An even more decisive factor which results in trade following investments is the interlocking of financial, industrial, and transportation interests. A British director in an Argentina railway, for example, may be also a director or stockholder in a concern in Great Britain manufacturing steel rails. He is in a position to insist that the railway purchase from his company. When the complex interrelationships which exist in world trading are recalled, it is not surprising that foreign investments have many times had determining influences on trade. One or two statements by witnesses before the Federal Trade Commission may serve to make this concrete.

In the Argentine, in particular, we have encountered serious difficulty in selling to the railroads, as these are largely controlled by British financial interests. Every possible preference is given to British materials—even though substantial economies may be possible by employing American construction methods and materials. The consulting engineers in London receive a percentage on all materials purchased on designs which they prepare or which may be prepared by the engineers of the railroad and are approved by them. Their antagonism toward everything American even led them in one case to adopt a very expensive and antiquated construction,

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using local materials, rather than approve a design which we submitted and which would have effected a saving of upward of \$100,000. Our design was approved and urgently recommended by the chief and assistant engineers in Buenos Aires, but their recommendations were promptly overruled by the consulting engineers and the directors in London.<sup>19</sup>

In several South American countries and in Mexico, English, German, and American investments in industrial plants, railroads, and public utilities, insure in a large measure orders for machinery and plant equipment being placed with the merchants or manufacturers of the country having the investment. For instance, the investment of Chicago capital in packing houses in Buenos Aires insures the installation of American machinery in these plants, while houses controlled by English capital are equipped with English machinery. In Chile, American mining interests buy American machinery, often at a higher price than similar machinery could be bought for in Europe. Our investments in Mexico, as much as our proximity to that market, is the reason for our having the lion's share of the foreign trade of that country.<sup>20</sup>

Governments, even, have used their control over finance to further trade of their citizens. Not long ago the French Government threatened to withdraw the listing privilege from Turkish State bonds unless certain contracts were awarded French industry.<sup>21</sup>

The export of capital is a necessary and legitimate phase of the foreign activities of a modern commercial nation. The promoters of enterprises abroad will naturally be influenced for one reason or another to place many of their orders at home. Foreign investments, however, particularly those in undeveloped countries, may be used unfairly against competitors. The unfair practices and methods of competition already discussed<sup>22</sup> may be made

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<sup>19</sup> Federal Trade Commission, *op. cit.*, vol. i, p. 74.

<sup>20</sup> *Ibid.*, p. 75.

<sup>21</sup> J. Riesser, *op. cit.*

<sup>22</sup> See Chapter XII.

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more effective because of financial strength. Competitors in a foreign market may be eliminated by "tying contracts" or "full-line forcing." Financial power may enable a concern to bribe, entice away employees, and indulge in espionage. It may enable a concern to destroy a weak competitor by means of price cutting. In these and similar cases investments may be used unfairly, and they should, therefore, come under the same system of international regulation already found desirable in other economic matters.

Investments, loans, and concessions have a political as well as a commercial significance. They have played a large part in the diplomatic contests, international rivalries, and wars which perplexed the world for almost half a century before the Great War and were unquestionably one of the leading causes of the epochal struggle. H. N. Brailsford estimates that the motives that led to the increase of British and German armaments may be apportioned thus:<sup>23</sup>

50 per cent. or less for the settlement of the question, Who shall exploit Morocco?; 25 per cent. or more for the privilege of building a railway to Bagdad and beyond it; 25 per cent. or more for the future eventualities which remain unsettled — the fate of the Portuguese Colonies in Africa, and the destinies of China.

Speaking of this same problem G. Lowes-Dickinson, a responsible British scholar, says:<sup>24</sup>

So long as the exploitation of undeveloped countries is directed by companies having no object in view except dividends, so long as financiers prompt the policy of Governments, so long as military expeditions, leading up to annexations, are

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<sup>23</sup> H. N. Brailsford, *The War of Steel and Gold*, p. 247.

<sup>24</sup> G. Lowes Dickinson, *The European Anarchy* (1916), p. 132.

## COMMERCIAL POLICY

undertaken behind the back of the public for reasons that cannot be avowed, so long will the nations end by war where they have begun by theft. . . .

To these statements may be added that of an American naval officer. He said:<sup>25</sup>

It is the great amount of unexploited raw material in territories politically backward, and now imperfectly possessed by the nominal owners, which at the present moment constitutes the temptation and the impulse to war of the European states.

The export of capital or the control of land through exclusive trading companies is one of the most ingenious ways of nullifying the open-door principle. Equality of treatment may be granted in import and export tariffs and still the right to exclusive trading may be established in favor of one country by the granting of concessions, by land control, or other restrictions. In the General Act of the Berlin Congress of 1885 it was agreed that in the Basin of the Congo the trade of all nations should "enjoy complete freedom." Discriminatory dues on vessels navigating the Congo and its affluents were also forbidden. The Congress, in fact, established the open door to all nations. But the Congo Free State decreed in 1885 that all "vacant lands" were its property. As a result of the interpretation of this decree and the promulgation of others, the Government assumed absolutely proprietary rights over almost the whole of the country. Rights to trade and concessions were granted to private trading companies, and the State itself entered into partnerships with others for the purpose of exploiting the resources. The State exercised an absolute and exclusive ownership over virtually the whole of the land. It

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<sup>25</sup> Rear-Admiral A. T. Mahan, *Armaments and Arbitration*, p. 110.

## FOREIGN INVESTMENT

assumed the authority to dispose of all the products and prosecute any one who took any products from the land.<sup>26</sup> With the exception of the villages, the whole country came to belong to the financial companies or to the Congo Free State.<sup>27</sup> The natives were forbidden to sell rubber and ivory to private factories and were compelled to bring specific amounts to the agents of the *concessionnaires* on penalty of death.<sup>28</sup>

The charges against the Congo Free State were, first, those of inhuman conduct toward the natives, and second, that the methods employed to exploit the State lands and the exclusive grants to *concessionnaires* nullified the open-door principle. It may be added here that the French in the part of the Congo which they controlled went to the length of excluding foreign houses, and a similar attempt was made on the Ivory Coast.<sup>29</sup>

A more recent case of the proposed exclusion of foreign capital from a colony comes from the Caribbean.<sup>30</sup> The correspondent of the *London Times*, writing from Kingston, Jamaica, in 1917, spoke of the possibilities of the colonies of the Crown in the Caribbean Archipelago. He pointed out that they are rich in mineral deposits, the most of which have not been exploited. He then added that it should not be left to American capitalists and others to develop the gold, diamond, bauxite, and other resources of the magnificent colony of British

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<sup>26</sup> M. Vandervelde in Belgian House of Representatives, February 20, 1916. The five-days Congo debate in the Belgian House is printed as Sen. Doc. 139, 59th Cong., 2d Sess.

<sup>27</sup> From Report of Commission of Inquiry, quoted by M. Vandervelde.

<sup>28</sup> E. D. Morel, *King Leopold's Rule in Africa*, pp. 36-44. A number of letters substantiating his charges are quoted by Mr. Morel.

<sup>29</sup> J. W. Root, *Colonial Tariffs*, p. 286.

<sup>30</sup> The *London Times* "Trade Supplement," December, 1917.

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Guiana. In speaking of this position he quoted an address by Sir Wilfrid Collet, the Governor of the Colony, in which he said :

American capital is not wanted to develop the resources of Demerara; it is a British Colony; British capital should, therefore, be used for the purpose. If it is a success, then British capitalists should get the benefit; if their efforts fail, then it will be British capital that is lost.

At that time Americans were seeking to invest in bauxite deposits. The correspondent states that the Secretary of State for the Colonies gave instructions that this industry should be preserved for the Crown and nothing should be done whereby foreign capitalists would be able to continue to exploit the deposits until after the war.

Serious complications have arisen from the unregulated lending of capital to weak Governments or from the conflict between financial interests and weak local governments over the development of resources. The British Government was led to intervene in Egypt chiefly to protect its citizens who held Egyptian bonds.<sup>31</sup> French intervention in Morocco followed as a result of the unregulated lending by private French houses to that Government. The United States has intervened in Haiti and the Dominican Republic in order to adjust difficulties which have resulted from the unregulated advancing of capital by European investors to irresponsible Governments. A further illustration of the connection between financial investment and political conquest is supplied by Italy's Tripolitan war. One of the leading factors causing this war was that a relatively unim-

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<sup>31</sup> H. N. Brailsford, *op. cit.*, Chapter III.



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portant bank, the Banco de Roma, having begun investing in Tripoli and then practically attempted to "secure a mortgage on the province," found itself obstructed by Turkey in its attempt to get certain important concessions. It thereupon informed the Italian Government that if military aid was not granted, it would be forced to sell out to British and German financiers. The president of the Bank's Board of Directors was the brother of the Minister of Foreign Affairs. War followed and the Bank was granted the right of disposing of important war contracts. Since the war this fortunate institution has remained associated with the Government in the development of Italian interests in Tripoli.<sup>32</sup>

Another war which might be cited as having grown out of the interests of foreign investors and *concessionaires* is the Boer War. David Lloyd-George, at that time far from being Premier, opposed the war as one that was waged in the interests of those owning gold and diamond mines in the Transvaal.

The absence of any authority to distribute loans and concessions among the investing powers has led nations to employ diplomatic influence backed by their armies and navies to assist their financial interests in obtaining what they consider a fair share of opportunity in exploiting the resources of the world. From this position it was not an unnatural step for aggressive nations to use the financial wedge as a device for advancing their political ends. Russia and Japan, for example, at the time of the Five-Power Loan to China in 1913 had no capital to invest in a purely commercial enterprise. They insisted, however, for political reasons in sharing

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<sup>32</sup> René Pinon, "*L'Europe et la guerre Italo-Turque*," *Revue des Deux Mondes*, June 1, 1912.

## COMMERCIAL POLICY

in this Loan.<sup>33</sup> Political motives were also inseparably linked with Russia's activities in Persia and with Germany's plan to build the Bagdad Railway. Russia pressed southward in Persia in the hope of establishing a seaport on the Persian Gulf. Great Britain, in order to protect her communications to India, opposed this movement, and spheres of influence were agreed upon with a neutral zone between. In 1911 Russia and Germany entered into an agreement in which Germany recognized that Northern Persia was a Russian sphere of influence and that Russia could claim all the railway concessions granted by the Persian Government in that region. In support of Russian policy it was agreed that German capital would be provided to assist in the construction of a railway from Teheran to Kohanikin on the Turko-Persian frontier. It was to remain under the control of the Russian *cessionnaires*. In return Russia recognized Germany's commercial interests in northern Persia and also recognized Germany's rights granted by concession in the Bagdad Railway and undertook to give diplomatic support to the completion of that enterprise.<sup>34</sup> The German plan to build the Bagdad Railway, and the numerous concessions which accompanied it, was the keystone of Germany's Near Eastern policy. It was the basis of her diplomacy at Constantinople for many years. Important as this enterprise was from a financial and trading standpoint, it was more conspicuously a case of the use of financial control to further the political ends of a nation.

In China the so-called "scramble for concessions" occurred during the years following the China-Japanese

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<sup>33</sup> Stanley K. Hornbeck, *Contemporary Politics in the Far East*, p. 395.

<sup>34</sup> W. Morgan Shuster, *The Strangling of Persia*, pp. 254-57.

## FOREIGN INVESTMENT

war.<sup>85</sup> China's weakness had led to the impression that her partition was at hand. Concessions or non-alienation pledges were exacted from her by France, Great Britain, Russia, Germany, and Japan. France and Great Britain obtained concessions and privileges in the south of China. Russia after forcing Japan to give up the Liaotung Peninsula took it herself and obtained among other things the privilege to build railroads in Manchuria. A German fleet took possession of Kiao-Chau Bay in Shantung and established her sphere of influence there. Non-alienation pledges were secured by France for the Island of Hainan and the provinces bordering on the Tonking, by Great Britain for the Yangtse Valley, and by Japan for the Fukien Province. Among the Great Powers these were considered as establishing their prior claims in case China was partitioned, but China had no intention of alienating its land to any nation. Great Britain also exacted a lease to Wei-hai-Wei. The sordid story of finance and diplomacy in China cannot be told in detail here. Manchuria will serve as an illustration of the political consequences which have resulted. Russia had claimed the exclusive right to build railroads in Manchuria. When the Boxer uprising in 1899 ended the scramble for concessions, Russia occupied the province outright. In 1905 she was ejected by Japan, who succeeded to all the Russian concessionary privileges. Japanese influence has gradually extended itself throughout Manchuria and into Eastern Inner Mongolia. China was forced to agree not to build a line competing with the South Manchuria Railway Company, nor were foreigners other than Japanese to enter into competition. British capitalists were prevented from building a

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<sup>85</sup> For a fuller discussion see Stanley K. Hornbeck, *op. cit.*, Chapter XII.

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Hsinmintun-Fakumen extension of the North China line, and British, American, and Chinese capitalists from building a Chinese Government line from Chin Chou to Aigun. It is not likely that any line could be projected in South Manchuria that would not be deemed to compete with the South Manchuria Railway or its branches; hence, the position of Japan is monopolistic. The control of this railway has been placed in the hands of the Japanese Ministry of Communications, making it a Government venture, and making its privileges the privileges of the Japanese Government. Among these privileges is the right to work the mines of the regions. In all South-eastern Manchuria the Japanese Government is the supreme authority. The Chinese administration is retained, but a veto power is exercised by Japanese officials.

When Secretary of State Knox suggested, in 1910, that the railways of Manchuria be neutralized, the Russian and Japanese Governments refused consent, the Foreign Minister of Japan declaring that numerous Japanese enterprises had been promoted in Manchuria in the belief that the railway would remain in Japanese hands and that it could not be given up.

Probably the boldest attempt which has been made to impose the rule of one country on another is found in the 21 demands<sup>36</sup> made by Japan on China in 1915. If these demands had been acceded to as originally made, the result would have been the establishment of a Japanese protectorate over China.<sup>37</sup> China was finally forced to accept some of them, which turned over to Japan German rights and privileges in the Shantung, extended Japanese rights in Manchuria and Eastern Inner Mongolia, secured for Japanese control of the iron

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<sup>36</sup> Quoted in Appendix III.

<sup>37</sup> Stanley K. Hornbeck, *op. cit.*, Chapter X.

## FOREIGN INVESTMENT

and steel mills at Hankow and mines in the surrounding region, and compelled China to agree not to cede or lease to any Power, bays, harbors, or islands along her coast. Since the outbreak of the war, Japan has loaned to China over \$100,000,000,<sup>38</sup> "thereby, in the view of the Chinese, increasing its hold on the country."<sup>39</sup>

No region requires international supervision more than China. In that country even more than in Africa or the Near East the unregulated contest of financial interests backed by narrow national diplomacy threatens the future peace of the world. The statement of John Hay, true when he made it some twenty years ago, is more true today than ever: "The storm-centre of the world has gradually shifted to China. . . . Whoever understands that mighty Empire . . . economically . . . has a key to world-politics for the next five centuries. . . . The danger is great that China will become, through the jealousy and the indifference of the Western Powers, the most dangerous storm center in the world after the European peace is concluded."<sup>40</sup> A consideration of the Chinese problem is imperative in the interests of world peace, for, as has been stated by a well-informed British champion of China:<sup>41</sup> "The politico-economic relationship between the Republic and the world must be remodelled at the earliest possible opportunity, every agreement which has been made since the treaties of 1860 being carefully and completely revised."

In considering the policy to be pursued toward invest-

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<sup>38</sup> *Millard's Review*, August 10, 1918.

<sup>39</sup> W. Reginald Wheeler (Hangchow College), *China and the World War* (1919), p. 161.

<sup>40</sup> F. W. Williams, *The Nation* (New York), November 22, 1917.

<sup>41</sup> B. L. Putnam-Weale, *The Fight for the Republic of China* (1917), p. 375.

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ments, loans and concessions, the distinction should be clearly drawn between those made in countries that are both politically and economically independent and those made in other countries. The former are amply able to protect themselves from the form of economic penetration practiced by Germany before the war. The danger here, in fact, is that unnecessary restrictions will be placed in the way of the freedom of investment. On the other hand, a very different policy is desirable in undeveloped regions where political control is weak. Here, if investments, loans, and concessions are regulated at all, it must be from without. The *régime* of anarchy and license which prevailed before the war must be replaced by strict international supervision. No one power should be permitted to close the door to the capital of all others, nor should nations permit an unregulated scramble to go on among their financial interests for privileges. But until some form of international regulation is adopted, it is almost inevitable that nations will use diplomacy and the threats of armaments to obtain for their citizens exclusive spheres of influence and that complications will arise between investing countries and between them and weak peoples. Says a British writer of standing:<sup>42</sup>

The problem is two-fold: — first, how to secure the reasonable rights of the inhabitants of such undeveloped countries against a policy of plunder, extinction of life, or servitude imposed by the people of a powerful aggressive state; secondly, how to secure equal opportunities to the members of various advanced nations to participate in the work of developing the natural resources and the trade of the backward countries. The peace of the world is dependent upon both.

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<sup>42</sup> C. K. Hobson, chapter on "The Open Door," in *Towards a Lasting Settlement* (1916), p. 105.

## FOREIGN INVESTMENT

Imperialism has failed to solve the problem. It has secured the rights of the investors but frequently at the expense of the borrowing peoples and the world. It looked upon economically backward countries as fields for exploitation. If it be permitted to continue to determine the relations of nations, we may expect frequent disputes in all parts of the world, fomenting of revolutions, interventions of Governments favoring the interests of their citizens, the establishment of protectorates, and continued hostility among nations.

The alternative to economic imperialism which has often been advocated is the policy of *laissez faire*. It is argued with some plausibility that if investors wish to invest their funds in foreign enterprises, they should take all the risks and submit themselves to the local *régime*. This policy, advocated by many anti-imperialists, is frequently insisted upon by the Governments of the undeveloped countries. The Mexican Constitution adopted in 1917, for example, provided that Mexico would grant the right to acquire ownership in lands, water, and other appurtenances, or concessions to develop mines, waters, and mineral fuel in the Republic of Mexico provided the foreigners "agree before the Department of Foreign Affairs to be considered Mexicans in respect to such property, and accordingly not to invoke the protection of their Governments in respect to the same, under penalty, in case of breach, of forfeiture to the Nation of property so acquired."

The *laissez-faire* proposal leaves out of account the positive value of foreign investments to undeveloped regions and to the world as a whole. If a single nation, such as the United States, were to refuse support to financial interests abroad, it would only result in the elimination of its influence from the developing regions.

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Our capitalists, if they still cared to invest, would merely transfer their capital to another country. Where there is no regulation, the rate of interest is high and the exploitation which exists is normally prompted by the risks involved, which would be greater rather than less if protection were refused. If all industrial nations adopted the policy of non-intervention, the struggle of financial interests would result in unfair exploitation of helpless races and in time would become an issue in world politics in spite of the home Governments.

Foreign investments and concessions in undeveloped countries constitute a problem which can be adequately solved only by joint action among nations. No alternative exists that does justice to the interests affected and assures a lessening of causes of war. Supervision and regulation of international finance is essentially the task of an international commission functioning under the League of Nations. Such a commission would no doubt find it necessary to establish local commissions in the different regions of the world where the conditions required it. Details must be worked out in practice. The recognition of the principle of international control is the important thing. In general, the work of such a commission would fall into two classes. In the first place, it would assist in the distribution of loans and concessions among nations that have surplus capital. Publicity on loans and loan contracts would in itself have value. Perhaps provision should be made that weaker nations seeking loans should apply to it and then it would undertake the underwriting of the loans to all countries on equal terms. By establishing methods for equally distributing loans and concessions, the temptation to bribe weak Governments and the necessity for diplomatic pressure would lessen, and the enterprises would become less



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and less political and more and more, what they should be, merely commercial. In the second place, the commission would have the duty of protecting the borrowing nation from exploitation and undue political pressure and of adjusting disputes between it and the lender. It should have power to fix the terms of loans and concessions. Its supervision, by creating security, would enable undeveloped nations to get capital on reasonable terms and at the same time make foreign investments safe for the investor. In case disputes arose between local governments and the foreign commercial interests, as, for example, when revolutionary changes in government are resorted to as a means of avoiding the payment of debts, appeal for support to the foreign office of the home Government of the investors should not be permitted, but should be required to be made to the commission. Such a practice would tend to eliminate the use of investments as an excuse for intervention and political dominion. Some form of international control, whether that proposed or some other, is unquestionably the only avenue of escape from the political complications, rivalries, and struggles which have vexed and disturbed the world in the past and which, if met by no constructive solution, will lead to future wars.

## CHAPTER XVIII

### TOWARD WORLD DEMOCRACY

Place of national governments in progress in the immediate future — National security, both military and economic — Political democracy often associated with commercial and financial imperialism — Imperialistic nations cannot be formed into a successful democratic league — Responsibilities of democracies to undeveloped regions — Undesirable sort of "league of nations" — Holy Alliance — Triple Alliance — Triple Entente — *Mittel Europa* — Paris Economic Conference — Shall the "next war" be? — Arguments for a democratic league of nations — Causes of war — What the Great War has taught in coöperation — Failure of unrestricted competition — Proposals for a league of nations — Sovereignty — Covenant of the League of Nations — International commissions — Their functions and relation to the League — The need of vision.

New worlds do not just happen. The reconstruction of our national and international life requires constructive planning and positive action. In no field is this more true than in the complex economic relationships of nations. Any peace settlement that does not deal adequately with the economic questions that have played so large a part in the discussions of international politics during the last half century will not be worth its cost.

The path toward world democracy lies through nationality. International organization cannot at the present stage of the world's development take the place of national governments. It can simply supplement them. Upon the solid foundation of democratic nations we should rebuild social life as it has emerged from the war. A successful league of nations depends upon the

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recognition of the right of each nation to adopt such protective measures, whether military or economic, as will give it security and develop its resources. Nations exist as protectors of peoples and their civilization. Armaments are not to be cast aside merely by agreement; they are a vital part of national life, for they guarantee security. The Covenant of the League of Nations<sup>1</sup> provides only for the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations, having special regard to the geographical situation and circumstances of each State. We do not think of the British fleet as separate from the British Empire. Nations cannot be asked to give up their means of defense until a league of democratic nations has developed to a point at which it can guarantee security. And this cannot be accomplished in the twinkling of an eye. Decades were necessary to work out the idea of federation among the homogeneous states of the American Union. Gradually, very gradually, were the states persuaded that their interests justified the limitations of their activities. Not until after the Civil War could we feel reasonably sure that the Federal Government would not perish, and it took the Spanish-American War to bring out the full measure of national consciousness. In America we were first a union of states, then a union of peoples. In the Constitution the Federal Government was given power to declare war, to raise and support armies, and to provide and maintain a navy. But the states reserved the right to arm. "A well regulated militia," so the Second Amendment to the Constitution reads, "being necessary to the security of a free state, the right of the people

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<sup>1</sup> Quoted in Appendix IX.

## COMMERCIAL POLICY

to keep and bear arms shall not be infringed." This right to military defense reserved to each state in the Union ceased to seem important to American citizens only when the Federal military power became strong enough to insure "the security of a free State."

This reasoning applies with equal force to the economic problems of nations. Nations are entitled to that degree of industrial and commercial security that can be obtained without discrimination and imperialistic aggression. What has been said in earlier chapters concerning American commercial policies applies with equal force to other nations. Protective measures may be used to establish or preserve essential industries. Nations with natural resources may develop them with tariffs; they may adopt measures to diversify their life and develop their productive powers. Anti-dumping legislation may be enacted; no nation need submit to price cutting by foreign industries that undermines the industrial fabric essential to its economic wellbeing. Nations may also use their economic power in such a way as to enforce equality of treatment for their citizens doing business abroad. These and similar measures that aim at the establishment of economic security and equality of treatment are not inconsistent with a league of free nations, but are, in many particulars, essential in preserving that body of democratic tradition from which a world organization must draw its ideals. Protective tariffs have at times been used to advance the interests of a special class, but so also has free trade. Neither protection nor free trade is applicable to all conditions. A complete establishment of democracy in economic as well as political affairs may still depend for its security upon protective tariffs, anti-dumping legislation, and bargaining tariffs. These measures may be necessary in molding

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social institutions and in preserving the social progress which a people has made.

In preparing for a democratic world league, reform for each nation constituting it should begin at home. Even in political democracy nations are far from perfect. Some nations seeking admittance to the world league have no conception of democratic ideals; others, and the most powerful (including the United States, Great Britain and her self-governing dominions, France and Italy), have, some more, some less, shaped their political institutions along democratic lines. But in industry, trade, and finance democratic ideas have made slow progress. Small groups with autocratic power still control the economic and social activities of large numbers of human beings through the ownership or control of capital. The share of labor in the control of industry has been slight, but in that field democracy is making progress.<sup>2</sup> In foreign trade and finance the power of small autocratic groups has been almost supreme, and Governments, democratic as well as autocratic, have lent their power to further this growing commercial and financial imperialism. Nationalism has been brought into disrepute because peoples, content with political control which never reached the evil, allowed the national power to be used to further the selfish interests of dynastic or commercial classes. Peoples should not be satisfied with having overthrown the autocracy of Germany. The same thing that made Germany dangerous is raising its head among the victorious allies and it is the great enemy of a world league. Imperialistic

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<sup>2</sup> Cf. Reconstruction Programme of the British Labour Party. See also A. E. Zimmern, *Nationality and Government* (1918), p. 172 *et seq.*

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nations, even if they hypocritically call themselves democracies, cannot be welded into a democratic league. The first task before nations then is to perfect within their own borders the alliance between democracy and national economic aspirations.

Democracies should see to it that neither their citizens nor their Governments pursue a policy toward other peoples that is contrary to democratic principles and that may embroil them in international difficulties. This requires that Governments be truly representative, and particularly that foreign relations be under the guidance of those who appreciate their responsibility for the observance of democratic principles and the maintenance of democratic ideals. Publicity is essential. Secret agreements have been one of the chief devices employed by those who used the machinery of modern States in the interests of special groups. At the outset it should be agreed that "there shall be no private international understandings of any kind, but diplomacy shall proceed always frankly and in the public view."<sup>3</sup> Agreements made in contravention of this democratic principle should be held not to be binding.

The success of any league of nations will depend primarily upon the spirit in which individual nations carry out the covenants of the final peace. Discriminations in trade, transportation, and tariffs and colonial monopolies are clearly undemocratic. But the acceptance of the principle of equality of treatment, the open door, and international supervision will not be sufficient if commercial classes and Governments are permitted to devise ingenious ways for evading international obligations. A democratic principle cannot be applied by

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<sup>3</sup> Cf. Article XVIII of the Covenant of the League of Nations, Appendix IX.

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an imperialistically-minded Government. Democracies must exercise constant control over the commercial activities of their citizens abroad and see to it that the spirit as well as the letter of their international covenants is adhered to.

Such a policy should never be merely negative, destructive, or restrictive; it should be constructive. It should seek to further the interests of each nation in every way consistent with harmonious world relations. Each nation's goods and capital are entitled to share in the development of the backward countries. Trade and investment are reciprocally beneficial. In checking the abuses to which they incline, we should not make the greatest mistake of all — the mistake of seriously impairing these great affirmative forces making for material progress.

Strong nations with democratic traditions that have built up through centuries their civilization have also an obligation to those parts of the world less advanced. The substitute for imperialism is not a *laissez-faire* policy. Letting backward peoples alone to work out their salvation with the not disinterested aid of private trading and financial interests results often in the grossest exploitation and social chaos. By such unheroic practice a nation may for a time escape international entanglements, but sooner or later the evil effects of the *laissez-faire* policy will draw it into conflict. Even if democratic nations did not have this selfish interest in checking tendencies outside their borders that ultimately may embroil them, they have a duty to prevent exploitation (forced labor, the traffic in liquor, the arming of natives,<sup>4</sup> for example) and to educate backward peoples

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<sup>4</sup> Cf. Article XXIII, Covenant of the League of Nations, Appendix IX.

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in the principles of self-government. Democracies should not shirk this responsibility. The chief burden of this work cannot be carried at present by any international organization. It must be borne by individual nations, holding their colonies and protectorates in trust and answerable to an international assemblage for the proper performance of their obligations.<sup>5</sup>

Not every form of association among nations is desirable. Imperialism, which has appeared so objectionable in individual nations, has its own particular form of a "league of nations" and the unsuspecting are likely to be led astray by its specious arguments. At the close of the war we heard it suggested: "We already have a league of nations. What more do we need? The nations who fought together in war now constitute a league for peace."

An alliance, however, is not a league of nations. It is a group of nations which for the time being have a common interest, often an imperialistic interest, which they wish to maintain against outsiders. It implies the exclusion of some nations whose interests are antagonistic. An imperialistic "league of nations" is worse than the imperialism of single nations.

The famous Quadruple Alliance of 1815 and the so-called Holy Alliance which supplemented it were to the autocrats of that day a sort of league of nations for the purpose of maintaining the *status quo*. Great Britain was not a party to the Holy Alliance, although a party with Austria, Prussia, and Russia to the Quadruple Alliance. Tsar Alexander I of Russia persuaded the autocrats of Prussia and Austria to join him in the Holy

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<sup>5</sup> For limited application of this principle see *ibid.*, Article XXII.



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Alliance with the purpose both in domestic and foreign affairs "to take for their sole guide the precepts of that Holy Religion, namely, the precepts of Justice, Christian Charity, and Peace, which, far from being applicable only to private concerns, must have an immediate influence on the councils of Princes, and guide all their steps, as being the only means of consolidating human institutions and remedying their imperfections." This "piece of sublime mysticism and nonsense," as Lord Castlereagh called it, illustrates clearly the operation of alliances. When Canning became British Foreign Secretary in 1822, he took the first step toward withdrawing from the Quadruple Alliance and the ending of the Concert of Europe. He supported the revolting Spanish colonies in Latin America against the illiberal policy of Metternich, proudly declaring that he had "called the New World into existence to redress the balance of the Old." At the same time the President of the United States set forth the famous Monroe Doctrine.

The alliances that immediately preceded the Great War furnish further examples of this form of international association. Particularly from the '90's on to the outbreak of the war there were diplomatic struggles of greatest moment. Alliance was balanced against alliance with many efforts to tip the scale in favor of the hegemony of one group. Bismarck's Triple Alliance may be considered as the starting point. As it spread its influence toward the east and as German influence supplanted that of other powers at Constantinople, France and Russia were drawn together and formed the Dual Alliance. In 1904 the Entente Cordiale was established between France and Great Britain and three years later Russia was added, making the Triple Entente. In 1911 the alliance between Great Britain and Japan,

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originally entered into in 1902, was renewed. Such was the grouping of the powers in 1914 when Germany threw aside diplomacy and attempted to establish her world dominion by force of arms.

As the war dragged on, there was a further extension of the alliance idea. The Triple Alliance after the withdrawal of Italy became the Quadruple Alliance by the addition of Bulgaria and Turkey, and this combination became the basis of the Prussian dream of *Mittel Europa*. This grouping of powers, if it had been permitted to remain and hold its captured territory and to weld itself into an economic unit by preferential customs duties, loans, control of trade routes, and all the other subtle means of economic penetration, would have been an alliance embodying all the worst features of combative nationalism. Its significance for the purposes of this discussion is that it shows the conditions to which alliances give rise.

A similar development took place among the Allied Governments. In June, 1916, they adopted "on grounds of necessary and legitimate defense" the famous resolutions of the Paris Economic Conference.<sup>6</sup> These resolutions proposed an economic war during an indefinite period, called the "reconstruction" period, following the Peace Conference. Most-favored-nation treatment was to be refused to the Central Powers, that is, they were to be discriminated against; and since experience has shown that discrimination is a sword that cuts both ways, compensatory outlets were to be given to any Ally whose commerce was injured. Added to this plan to restrict the markets of the Central Powers, the Allies proposed to deprive German industries of raw materials by conserving for themselves "their natural

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<sup>6</sup> Appendix II.

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resources" and establishing "special arrangements to facilitate the interchange of these resources." The commerce of the "enemy Powers" was to be submitted to "special treatment," and their goods — let us not forget that this was to be after peace had been signed — were to be subjected "either to prohibitions or to a special *régime* of an effective character." "Special conditions" were also to be imposed on Teuton ships — more "navigation laws," it may be supposed. As if these restrictions were not enough to remind us of the fiercest days of trade conflict in former centuries, it was proposed to revive the practice of excluding foreigners from all retail trade in the mediæval town; the subjects of the Central Powers were to be prevented from exercising in the countries of the Allies "industries or professions which concern national defense or economic independence."

This economic alliance was not, according to the resolutions, to be temporary. In the spirit of exclusive nationalism the Allies decided "to take the necessary steps without delay to render themselves independent of the enemy countries in so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities." This self-sufficiency was to be achieved by subsidies, enterprises controlled by Government, scientific and technical research, customs duties, and "prohibitions of a temporary or permanent character."

The Paris resolutions proclaimed Germany a people with whom the Allies would have no dealings. Although the signing of some sort of peace was assumed, the resolutions proposed that after it there should remain an impassable economic gulf between the Allies and the "enemy countries." But what kind of peace can that

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be in which the "allies" are grouped in one economic camp and their "enemies" in another?

In so far as the Paris resolutions proposed to use the economic power of the Allies as a supplement to military operations, they were highly commendable. They may also be justified as a card in the game of strategy — an effort to frighten the Central Powers with the use of the economic weapon. The pact came at a time when the hope for military success on the side of the Allies was all but gone. The economic weapon appeared to be the only one left in the Allied arsenal. The economic boycott will, it is true, be one of the devices used by the League of Nations against recalcitrant nations. Under the Covenant of the League of Nations the members undertake<sup>7</sup> to subject a nation committing an "act of war . . . to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State, and the prevention of all financial, commercial, or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other States, whether a member of the League or not." But such a policy of the League is fundamentally different from the exclusive combative proposals of the Paris resolutions. They, like the plan for *Mittel Europa*, are the last organized effort of the old system of alliances to save itself. They are militarism translated into commercial warfare.

From this hasty sketch of alliances it should at least be clear that the sort of "league of nations" with which we ended the war — an alliance of the Allies — is not the kind the world wants. The same is true of the much advertised Anglo-Saxon Alliance. The nations that

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<sup>7</sup> Article XVI.

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won the war, or even the English-speaking peoples of the earth, have the power today to maintain the peace of the world for a hundred years. But at the end of the hundred years the world would be no nearer to international coöperation than it is today. Such alliances would probably maintain the peace in their own interests, and even if they were considerate to others, they would always be under suspicion. Excluded peoples would have at least one thing in common — their opposition to the alliance. Their common policy would be the battering down of its monopoly. Some power would perhaps find it to its interest to fall away from the alliance as Great Britain left the Quadruple Alliance. The difficulty is inherent in the nature of an alliance, and if nothing but an alliance results from the Great War, the old game of diplomacy, balancing of powers, and conflict will begin anew to prepare the world for the "next war."

The arguments in behalf of the association of democratic nations for the purpose of dealing with those problems that no one of them can solve alone are manifold. The woeful failure of alliances and the idea of the balance of power is one of them. An attempt to establish a league of nations can hardly at worst end in anything more catastrophic than the war that began in 1914. Only a few of the other arguments can here be touched upon. Modern war has come to absorb all the energies of the warring nations. Inventions which are the pride of modern material progress have been turned into instruments of destruction. "There has been a change, an intensification, of the destructive processes of war which opens up a black alternative" to the possibilities of "human unification and world-unanimity" which the

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development of transportation, communication, production, and education make possible.<sup>a</sup>

. . . The case as it is commonly stated in the propaganda literature for a League of Nations is a choice between, on the one hand, a general agreement on the part of mankind to organize a permanent peace, and on the other, a progressive development of the preparation for war and the means of conducting war which must ultimately eat up human freedom and all human effort, and, as the phrase goes, destroy civilization. . . .

What has happened is essentially this, that the natural limitations upon warfare which have existed hitherto appear to have broken down. Hitherto there has been a certain proportion between the utmost exertion of a nation at war and the rest of its activities. The art and methods of war have had a measurable relation to the resources of the community as a whole, so that it has been possible for nations to be well armed by the standards of the time and yet to remain vigorous and healthy communities, and to wage successful wars without exhaustion. . . .

. . . But the outbreak of that struggle [the war of 1914-1918] forced upon the belligerents, in spite of the natural conservatism of all professional soldiers, a rapid and logical utilization of the still largely neglected resources of mechanical and chemical science; they were compelled to take up every device that offered, however costly it might be; they could not resist the drive toward scientific war which they had themselves released. In warfare the law of the utmost immediate exertion rules; the combatant who does not put in all his possible energy is lost. In four brief years, therefore, Europe was compelled to develop a warfare monstrously out of proportion to any conceivable good which the completest victory could possibly achieve for either side.

Here is stated by Mr. Wells and his associates the fundamental argument for the abolition of war. If there were no other argument, it alone should suffice to

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<sup>a</sup> H. G. Wells and others, "The Idea of a League of Nations," *Atlantic Monthly*, January, 1919, p. 106.

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enlist the support of everyone. If man cannot devise social controls to keep up with the progress of invention and material civilization, he fails. In the present anarchy of international affairs mankind is to a large degree the victim of material forces which should be his most useful servants. To hold that many of the differences arising between nations can be settled only by wars is to admit the political and moral bankruptcy of western civilization.

The problem of war must be attacked at its source. Causes of wars must be removed before disarmament can advance far. In Part III of this book some of the causes of international friction have been discussed. They present problems which nations acting alone or bargaining, two by two, cannot solve. Such problems would exist even in a world where all the nations were democratized. In domestic affairs we have long recognized that the judgment of an individual, a class, or a locality is not always to be accepted when the nation's interest is at stake. In international affairs a similar situation confronts us. The individual nation is not always in a position to judge what will work for international harmony and goodwill. Some form of international control coextensive with international problems is necessary. It will require time to perfect a League of Nations, but this should be no excuse for not making a beginning in international government. We would never have had the American Union if in 1787 powers that no one state could adequately handle had not been delegated to the Federal Government.

Out of the present chaos of national selfishness in international affairs must come a conscious international direction of the great forces of international trade and finance in the interests of a better and more peaceful

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world. Trade between nations must be made fairer by the elimination of unfair trade practices and transportation discriminations. Such practices as export bounties, the imitation of trade-marks and designs, preferential shipping rates, and predatory price-cutting must go. The economic resources of the world must be developed not, however, in the selfish interests of classes in particular nations that happen to control them, but in the interests of social welfare throughout the world. It is of international concern that the resources of the world are made available on equal terms to all. The principle of the open door and of unconditional most-favored-nation treatment are an essential basis in solving the problems of tariff discriminations and colonial development. The wider problems of financial control, investments, and concessions are also international problems which need and must have the regulating influences of international machinery.

The war has demonstrated that coöperation among nations is practicable. The unified control of the Allied armies was in itself a signal achievement. Co-operation in shipping and in commercial and financial matters was successful in the Allied Maritime Transport Council, the Allied Food Control, the Allied Credit Control, and in the various committees for handling raw materials.<sup>9</sup> The war in fact demonstrated not only that the world needs, but that it is practicable to have, regulating forces more effective than those of unrestricted competition. It has proved that the operation of so-called natural laws can be and should be controlled and directed by man-made organizations. Production can be energized and made to serve a social purpose. Raw materials and food can be distributed where they are

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<sup>9</sup> Cf. Chapter XIII.



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most needed. Finances can be controlled and shipping directed. Out of the ruins of the war must come a practical, definite step toward international control, which, as our experience extends and the democracies become better informed, should gradually develop into a comprehensive League of Nations directing the economic forces of the world in the interests of peace and order.

In the United States the League to Enforce Peace has done excellent work in assisting the American public to think internationally. So also has the League of Free Nations Association. This association declares that the purpose of a League of Nations should be "to achieve for all peoples, great and small: (1) Security, the due protection of national existence; (2) equality of economic opportunity."<sup>10</sup> The Association considers the following principles indispensable:

A universal association of nations based upon the principle that the security of each shall rest upon the strength of the whole, pledged to uphold international arrangements giving equality of political right and economic opportunity, the association to be based upon a constitution democratic in character, possessing a central council or parliament as truly representative as possible of all the political parties in the constituent nations, open to any nation, and only such nation, whose Government is responsible to the people. The formation of such an association should be an integral part of the settlement itself and its problems, and not distinct therefrom. It should prohibit the formation of minor leagues or special covenants, or special economic combinations, boycotts, or exclusions. Differences between members should be submitted to its judicial bodies. Its administrative machinery should be built up from the inter-Allied bodies already in existence, expanded into international bodies differentiated in function

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<sup>10</sup> *The Nation* (New York), November 30, 1918, p. 650.

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and democratized in constitution. The effective sanction of the association should not be alone the combined military power of the whole used as an instrument of repression, but such use of the world-wide control of economic resources as would make it more advantageous for a state to become and remain a member of the association and to coöperate with it, than to challenge it.

Sir Frederick Pollock, the eminent authority on legal matters, does not think a league of nations an undue infringement upon the independence of nations. He says:<sup>11</sup>

It seems that when we are discussing the derogation from the rights of an independent State which must or may be incident to joining a League of Nations, it will be better to avoid sovereignty as an ambiguous and disputed term, and speak only of independence; better still if we can bear in mind that the question is not of words, but to what extent the parties to a League of Nations must undertake to fetter their discretion in exercising the rights allowed to independent States by accepted usage, and whether in these necessary restraints there is anything unreasonable or excessive, having regard to the importance of the end to be attained. . . .

Thus there seems to be nothing amounting to denial of independence in the obligations that members of a League of Nations would have to undertake

(a) Not to make war without the sanction of the League;

(b) To take measures, by breaking off diplomatic relations, economic pressure, or active warfare, against any State violating the foregoing rule, or any State external to the League attacking a member of it;

(c) To reduce its armaments as part of a general scheme, or to submit the future production of warlike material to the control of some common authority.

No international league will spring into existence full-

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<sup>11</sup> "Sovereignty and the League of Nations," *Fortnightly Review*, December, 1918, p. 813.

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fledged. A plan too ambitious for the present time will destroy itself: Nations may not immediately yield up that degree of sovereignty that the more pretentious plans for a League of Nations call for. Years of education and experimentation are probably ahead of the world before the tradition, the sanction, and the international will come into being that are necessary to make a comprehensive world state a success. The immediate problem is to determine the steps that now should be taken toward international government, for real progress depends on knowing how much the world will accept at the present stage of its development.

President Wilson, as Chairman of the Commission on the League of Nations, submitted on February 14, 1919, at the plenary session of the Peace Conference a proposed Covenant of the League of Nations. Subsequently changes were made and the revised Covenant<sup>12</sup> was resubmitted on April 28, 1919. The action of the League is to be effected through the instrumentality of an Assembly, and of a Council with a permanent Secretariat. Except where otherwise expressly provided in the Covenant, decisions at any meeting of the Assembly or of the Council require the agreement of all the members of the League represented at the meeting. The principle of disarmament is recognized. The members of the League undertake to respect and preserve, as against external aggression, the territorial integrity and political independence of all members of the League. Any war or threat of war is declared a matter of concern to the whole League. Provision is made for the hearing of justiciable disputes before a court of arbitration and

<sup>12</sup> See Appendix IX for full text of the revised Covenant of the League of Nations.

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non-justiciable disputes before the Council or the Assembly. The covenants of the League are to be protected by joint economic or military action by the members, which may be put in force not only against members of the League but against outside nations that refuse to accept the obligations of League membership for the purpose of any dispute to which they may be a party.

The effective performance of the League's functions will require under its permanent Secretariat a series of bureaus or commissions.<sup>13</sup> Under the control of the League are to be placed "all international bureaus already established by general treaties if the parties to such treaties consent" and "all commissions for the regulation of matters of international interest hereafter constituted" (Article XXIV). Not the least of the tasks of the League of Nations will be the adjustment of disputes between nations in matters of commerce, trade, raw materials, tariffs, and finance. Many of these will not be of sufficient importance at the time to warrant a formal hearing before the Council or a court of arbitration, and yet, if left unadjusted, they may become serious controversies. In such matters advisory international commissions may do effective service by investigation, conference, and publicity. The work of Federal commissions in the United States in adjusting disputes arising between American citizens in interstate commerce and even between states furnishes ample precedents to justify similar commissions in international affairs. The United States Tariff Commission illustrates the purely advisory body.<sup>14</sup> The Interstate

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<sup>13</sup> Such as those discussed in Chapters XII, XIII, XVI, and XVII.

<sup>14</sup> Appendix IV.

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Commerce Commission, the Federal Trade Commission,<sup>15</sup> the United States Shipping Board, and the Federal Reserve Board (banking) have in addition certain administrative or quasi-judicial powers. Experience of these interstate commissions has shown that many disputes can be adjusted and discriminations and other unfair practices removed merely by publicity or by bringing the interested parties together before an impartial tribunal. Long, expensive court proceedings have frequently been rendered unnecessary, whereas they would have been inevitable if the parties had insisted strictly on their legal rights. In like manner international commissions may be constituted to assist in adjusting economic differences which often arise between citizens of different nations.

At the time of the establishment of commissions to deal with the economic problems that arise between nations, principles, in the form of substantive law, should be laid down for their guidance. Discriminations in trade and commerce and unfair practices in controlling raw materials, marketing and transporting goods should be declared contrary to international law. Nations should accept the principles of unconditional most-favored-nation treatment and of the open door, and before any exceptions to equality of treatment are sanctioned, the nations immediately concerned should submit to an international investigation to determine whether or not the proposed exceptions are economically justifiable. Equality of treatment should be applied not only to markets, transportation, and access to raw materials, but to the distribution of investments, loans, and concessions in economically backward countries. Under the Covenant of the League it is provided (Article XXIII) that through the League provision

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<sup>15</sup> Appendix X.

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shall be made "to secure and maintain freedom of communication and of transit and equitable treatment for the commerce of all members of the League." This is the acceptance of the principle of equality, but it requires amplification in further treaties. In fact, something in the nature of an international code for the regulation of the economic relationships of nations is highly desirable.

It will not be sufficient, however, to lay down certain general principles to regulate the relations of nations without establishing machinery for interpreting the principles and applying them to particular cases. This should be the work of the proposed international commissions. If nations are left to dispute over the interpretation of general principles, progress will be slow. Commissions should exist that will view the problems from the standpoint of the world's interest. They will be constantly called upon to determine, among other things, whether a given trade practice is unfair, whether discriminations are being made in transportation, whether raw materials are being unfairly controlled, whether the most-favored-nation clause is being properly interpreted, whether a given tariff practice is a discrimination, whether a nation is being improperly excluded from financial opportunities in backward countries, or whether the people in undeveloped regions are being unfairly exploited.

In a general way these commissions, discussed in some detail in earlier chapters, would have two functions. They would administer such rules, perhaps in the nature of a code, governing the economic relationships of nations as were adopted in treaties. Such rules will require constant construction and application to particular cases. In this respect these commissions would

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have semi-judicial powers as have certain of the interstate commissions of the United States. Unhampered by the strict rules of legal procedure, they would be able to act more quickly and effectively than a court, and in the majority of cases, as the experience of the American Federal commissions has demonstrated, the mere bringing of the parties together and an open consideration of the facts will solve most difficulties without formal procedure. Provisions should be made for appeal when desired to the international court established by the League. Again the Federal commissions of the United States provide a precedent. Appeals may be taken from the orders of the Federal Trade Commission to the United States Circuit Court of Appeals<sup>16</sup> or the Commission, in case its orders are not obeyed, may enforce them by filing a petition in that court. Appeals from the international commissions to the international court would provide added protection and assure the consecutive development of international law as it affects economic relationships.

The second function of these commissions, although more general, is nevertheless important. They should have wide powers of investigation and publicity relating not only to such matters as are covered by rules laid down in treaties but also to all economic questions arising between nations. Secrecy and misinformation have contributed largely to illwill among peoples. The publishing of the facts by an international commission would tend to correct many tendencies which lead to serious controversies. Nations should find a sense of security in the fact that there are international commissions considering the larger economic problems of the world in the light of harmony and peace.

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<sup>16</sup> Federal Trade Commission Act, Section 5. See Appendix X.

## COMMERCIAL POLICY

In the world out of which the Great War sprang as inevitably as sparks fly upward, a nation aggrieved by shipping, trade, or financial discriminations had only the alternative before it of submitting or retaliating. If it submitted, it nursed its grievance into suspicion and hatred; if it retaliated, the world witnessed a commercial war which increased ill-feeling. The need was great, and now after the war is even greater, for international commissions under the League of Nations that will investigate and offer a solution of these commercial rivalries before they result in conflict.

One of the dangers that may beset the League of Nations is that it may become a device for maintaining a *status quo* — for preventing the economic and national development of a growing people. If the necessity for change is not recognized, a League may maintain the peace for a few decades, but it will ultimately fail. Change is inevitable, and there are ample opportunities for economic development in the world to satisfy the needs of any democratic people. Not the least of the provisions of the constitution of the League, then, is the provision (Article XIX) for the reconsideration by the members of the League of treaties that have become inapplicable and of international conditions the continuance of which may endanger the peace of the world. This provision qualifies the rigor of Article X, which, if read alone, might be construed as an effort to maintain existing conditions for all time.

The Covenant of the League of Nations is a decided step toward world democracy. Sceptics may doubt its practicability but they must admit the future dark if we are to return to the unregulated haphazard international order of the pre-war period. And it may succeed. The security of nations requires that it shall. It provides



## TOWARD WORLD DEMOCRACY

the means of solving problems with which no nation can adequately deal alone and which, if left unsolved, may destroy nations and the civilization they seek to defend.

“Where there is no vision, the people perish.”



## **APPENDICES**



# AMERICAN MANUFACTURING INDUSTRIES

## APPENDIX I

### AMERICAN MANUFACTURING INDUSTRIES

#### SUMMARY FOR 14 GENERAL GROUPS OF INDUSTRIES, 1914, 1909, 1904, AND 1899<sup>1</sup>

Group No.	Group	Cen- sus year	Number of estab- lish- ments	Wage earners (average number)	Expressed in thousands				Value added by manu- facture
					Capital	Wages	Cost of materials	Value of products	
	All industries.	1914	275,791	7,036,337	\$22,790,980	\$4,078,332	\$14,368,089	\$24,246,435	\$9,878,346
		1909	268,491	6,615,046	18,428,270	3,427,038	12,142,791	20,672,052	8,529,261
		1904	216,180	5,468,353	12,675,581	2,610,445	8,500,208	14,793,903	6,293,695
		1899	207,514	4,712,763	8,975,256	2,008,361	6,575,851	11,406,927	4,831,078
1	Food and kindred pro- ducts.	1914	59,317	496,234	2,174,387	278,012	3,828,512	4,816,709	988,197
		1909	55,364	411,575	1,086,754	208,663	3,187,803	3,937,618	749,815
		1904	45,857	354,046	1,169,873	164,510	2,306,121	2,845,556	539,435
		1899	41,247	301,868	909,396	125,196	1,782,863	2,199,204	416,341
2	Textiles and their pro- ducts.	1914	22,995	1,408,664	2,810,848	672,351	1,993,058	3,414,615	1,421,557
		1909	21,723	1,438,446	2,458,463	592,261	1,745,516	3,060,199	1,314,683
		1904	17,042	1,156,305	1,744,169	419,842	1,246,562	2,147,441	900,879
		1899	17,647	1,022,123	1,340,634	341,652	894,846	1,628,606	733,760
3	Iron and steel and their products.	1914	17,719	1,061,058	4,281,998	723,161	1,762,313	3,223,144	1,460,831
		1909	17,292	1,026,553	3,578,605	635,323	1,799,942	3,164,472	1,364,530
		1904	14,431	868,634	2,351,051	488,598	1,190,794	2,199,776	1,008,982
		1899	14,082	745,235	1,549,318	387,590	1,000,949	1,819,478	818,529

<sup>1</sup> Abstract of the Census of Manufactures, 1914, p. 29.

# COMMERCIAL POLICY

## AMERICAN MANUFACTURING INDUSTRIES

SUMMARY FOR 14 GENERAL GROUPS OF INDUSTRIES, 1914, 1909, 1904, AND 1899 — Continued

Group No.	Group	Cen- sus year	Number of estab- lish- ments	Wage earners (average number)	Expressed in thousands					Value added by manu- facture
					Capital	Wages	Cost of materials	Value of products		
4	Lumber and its manu- factures.	1914 1909 1904 1899	42,036 48,639 32,501 34,924	833,529 911,593 734,136 671,696	\$1,723,456 1,570,549 1,009,950 728,367	\$440,308 424,760 335,045 253,176	\$762,350 717,853 517,501 480,930	\$1,599,710 1,588,274 1,219,749 1,007,532	\$837,366 870,441 702,248 526,602	
5	Leather and its finished products.	1914 1909 1904 1899	6,758 5,728 5,318 5,625	307,060 309,766 294,459 245,626	743,347 639,231 451,796 334,734	169,358 155,112 120,833 101,503	753,135 669,874 480,221 396,633	1,104,505 992,713 724,391 582,048	351,460 322,839 214,170 185,415	
6	Paper and printing.	1914 1909 1904 1899	37,196 34,828 30,803 26,627	452,900 415,990 351,640 298,744	1,433,176 1,133,618 903,662 559,400	298,493 242,062 196,423 140,754	580,715 451,239 209,012 214,566	1,456,046 1,179,285 859,814 607,907	875,331 728,046 550,902 393,341	
7	Liquors and beverages.	1914 1909 1904 1899	7,562 7,347 6,379 5,740	88,152 77,827 68,338 55,120	1,015,715 874,107 659,539 515,190	69,124 53,502 45,144 33,218	246,188 186,128 139,849 93,815	772,080 674,311 501,254 382,898	525,892 488,183 361,406 289,083	
8	Chemicals and allied products.	1914 1909 1904 1899	12,374 12,060 9,826 8,928	299,569 267,261 227,326 196,538	3,034,209 2,167,425 1,658,328 1,163,816	187,494 129,003 102,388 77,560	1,289,348 931,045 633,919 451,457	2,001,634 1,326,599 1,076,510 761,691	712,286 595,554 441,600 310,234	

# AMERICAN MANUFACTURING INDUSTRIES

SUMMARY FOR 14 GENERAL GROUPS OF INDUSTRIES, 1914, 1909, 1904, AND 1899 — *Continued*

Group No.	Group	Cen- sus year	Number of estab- lish- ments	Wage earners (average number)	Capital	Wages	Cost of materials	Value of products	Value added by manu- facture
Expressed in thousands									
9	Stone, clay, and glass products.	1914 1909 1904 1899	14,747 16,168 10,773 11,524	334,702 342,827 285,346 231,716	987,328 857,761 553,785 335,351	205,419 189,256 148,458 102,946	233,734 183,792 123,067 85,137	614,162 531,737 391,148 270,650	875,428 847,945 208,081 185,513
10	Metals and metal products, other than iron and steel.	1914 1909 1904 1899	10,023 8,783 5,880 5,041	262,154 249,607 198,531 161,463	\$1,013,632 867,405 571,902 372,663	\$166,893 146,793 110,208 81,974	\$1,023,354 892,065 633,132 472,515	\$1,417,042 1,240,410 895,975 690,974	\$393,698 348,345 262,843 218,439
11	Tobacco manufactures.	1914 1909 1904 1899	13,951 16,822 16,827 14,959	178,872 106,810 159,408 132,526	303,840 245,660 323,983 111,517	77,856 69,355 62,639 47,975	207,134 177,186 126,080 92,867	490,185 416,095 331,111 263,713	283,031 239,509 205,025 170,846
12	Vehicles for land transportation.	1914 1909 1904 1899	9,909 6,562 6,058 7,338	263,076 202,719 136,625 133,663	803,496 521,457 287,847 263,873	197,078 121,017 72,659 63,232	886,670 306,537 177,641 153,254	1,034,497 501,763 350,624 277,455	447,827 255,226 142,963 124,231
13	Railroad repair shops.	1914 1909 1904 1899	2,011 1,686 1,225 1,400	365,902 804,692 247,922 180,620	417,706 277,216 159,792 130,255	253,150 195,830 140,166 100,411	261,439 214,581 156,568 113,809	552,618 437,663 323,212 227,455	291,179 222,832 196,674 113,676
14	Miscellaneous industries.	1914 1909 1904 1899	19,193 16,389 13,256 12,402	594,465 489,480 415,660 332,825	2,047,812 1,490,019 1,998,904 660,772	361,635 264,071 204,532 151,274	835,139 679,250 469,745 312,210	1,749,418 1,390,413 938,333 687,236	914,279 681,163 498,538 353,946

## APPENDIX II

### RECOMMENDATIONS OF THE ECONOMIC CONFERENCE OF THE ALLIES<sup>1</sup>

#### I

The representatives of the Allied Governments have met at Paris under the presidency of M. Clémentel, Minister of Commerce, on June 14, 15, 16 and 17, 1916, for the purpose of fulfilling the mandate given to them by the Paris Conference of March 28, 1916, of giving practical expression to their solidarity of views and interests, and of proposing to their respective Governments the appropriate measures for realising this solidarity.

#### II

They declare that after forcing upon them the military contest in spite of all their efforts to avoid the conflict, the Empires of Central Europe are to-day preparing, in concert with their Allies, for a contest on the economic plane, which will not only survive the re-establishment of peace, but will at that moment attain its full scope and intensity.

#### III

They cannot therefore conceal from themselves that the agreements which are being prepared for this purpose between their enemies have the obvious object of establishing the domination of the latter over the production and the markets of the whole world and of imposing on other countries an intolerable yoke.

In face of so grave a peril the Representatives of the Allied Governments consider that it has become their duty, on grounds of necessary and legitimate defence, to adopt and realise from

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<sup>1</sup> Resolutions adopted by the representatives of France, Great Britain, Belgium, Italy, Japan, Portugal, Russia, and Serbia at the Economic Conference which sat in Paris June 14-17, 1916. English text, reprinted from British Board of Trade circular Cd. 8271, June 21, 1916.



## ECONOMIC CONFERENCE OF THE ALLIES

now onward all the measures requisite on the one hand to secure for themselves and for the whole of the markets of neutral countries full economic independence and respect for sound commercial practice, and on the other hand to facilitate the organisation on a permanent basis of their economic alliance.

For this purpose the Representatives of the Allied Governments have decided to submit for the approval of those Governments the following resolutions:—

### A

#### MEASURES FOR THE WAR PERIOD

##### I

The laws and regulations prohibiting trading with the enemy shall be brought into accord.

For this purpose:

A.— The Allies will prohibit their own subjects and citizens and all persons residing in their territories from carrying on any trade with:—

1. The inhabitants of enemy countries whatever their nationality.
2. Enemy subjects wherever resident.
3. Persons, firms and companies whose business is controlled wholly or partially by enemy subjects or is subject to enemy influence and whose names are included in a special list.

B.— They will prohibit the importation into their territories of all goods originating in or coming from enemy countries.

C.— They will devise means of establishing a system enabling contracts entered into with enemy subjects and injurious to national interests to be cancelled unconditionally.

##### II

Business undertakings owned or operated by enemy subjects in the territories of the Allies will all be sequestered or placed under control; measures will be taken for the purpose of winding up some of these undertakings and of realising their assets,

## COMMERCIAL POLICY

the proceeds of such realisation remaining sequestrated or under control.

### III

In addition to the export prohibitions which are necessitated by the internal situation of each of the Allied countries, the Allies will complete the measures already taken for the restriction of enemy supplies, both in the mother countries and in the Dominions, Colonies and Protectorates:—

1. By unifying the lists of contraband and of export prohibition, and particularly by prohibiting the export of all commodities declared absolute or conditional contraband;
2. By making the grant of licences for export to neutral countries from which export to enemy territories might take place conditional upon the existence in such countries of control organisations approved by the Allies; or, in the absence of such organisations, upon special guarantees such as the limitation of the quantities exported, supervision by Allied consular officers, etc.

### B

#### TRANSITORY MEASURES FOR THE PERIOD OF COMMERCIAL, INDUSTRIAL, AGRICULTURAL AND MARITIME RECONSTRUCTION OF THE ALLIED COUNTRIES

### I

The Allies declare their common determination to ensure the re-establishment of the countries suffering from acts of destruction, spoliation and unjust requisition, and decide to join in devising means to secure the restoration to those countries, as a prior claim, of their raw materials, industrial and agricultural plant, stock and mercantile fleet, or to assist them to re-equip themselves in these respects.

### II

Whereas the war has put an end to all the treaties of commerce between the Allies and the Enemy Powers, and whereas

## ECONOMIC CONFERENCE OF THE ALLIES

it is of essential importance that, during the period of economic reconstruction which will follow the cessation of hostilities, the liberty of none of the Allies should be hampered by any claim put forward by the Enemy Powers to most-favoured-nation treatment, the Allies agree that the benefit of this treatment shall not be granted to those Powers during a number of years to be fixed by mutual agreement among themselves.

During this number of years the Allies undertake to assure to each other so far as possible compensatory outlets for trade in case consequences detrimental to their commerce result from the application of the undertaking referred to in the preceding paragraph.

### III

The Allies declare themselves agreed to conserve for the Allied countries, before all others, their natural resources during the whole period of commercial, industrial, agricultural and maritime reconstruction, and for this purpose they undertake to establish special arrangements to facilitate the interchange of these resources.

### IV

In order to defend their commerce, their industry, their agriculture and their navigation against economic aggression resulting from dumping or any other mode of unfair competition the Allies decide to fix by agreement a period of time during which the commerce of the enemy powers shall be submitted to special treatment and the goods originating in their countries shall be subjected either to prohibitions or to a special régime of an effective character.

The Allies will determine by agreement through diplomatic channels the special conditions to be imposed during the above-mentioned period on the ships of the enemy powers.

### V

The Allies will devise the measures to be taken jointly or severally for preventing enemy subjects from exercising, in their territories, certain industries or professions which concern national defence or economic independence.

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## C

### PERMANENT MEASURES OF MUTUAL ASSISTANCE AND COLLABORATION AMONG THE ALLIES

#### I

The Allies decide to take the necessary steps without delay to render themselves independent of the enemy countries in so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities.

These steps should be directed to assuring the independence of the Allies not only so far as concerns their sources of supply, but also as regards their financial, commercial and maritime organisation.

The Allies will adopt the methods which seem to them most suitable for the carrying out of this resolution, according to the nature of the commodities and having regard to the principles which govern their economic policy.

They may, for example, have recourse either to enterprises subsidised, directed or controlled by the Governments themselves, or to the grant of financial assistance for the encouragement of scientific and technical research and the development of national industries and resources; to customs duties or prohibitions of a temporary or permanent character; or to a combination of these different methods.

Whatever may be the methods adopted, the object aimed at by the Allies is to increase production within their territories as a whole to a sufficient extent to enable them to maintain and develop their economic position and independence in relation to enemy countries.

#### II

In order to permit the interchange of their products, the Allies undertake to adopt measures for facilitating their mutual trade relations both by the establishment of direct and rapid land and sea transport services at low rates, and by the extension and improvement of postal, telegraphic and other communications.

#### III

The Allies undertake to convene a meeting of technical delegates to draw up measures for the assimilation, so far as

## ECONOMIC CONFERENCE OF THE ALLIES

may be possible, of their laws governing patents, indications of origin and trade marks.

In regard to patents, trade marks and literary and artistic copyright which have come into existence during the war in enemy countries, the Allies will adopt, so far as possible, an identical procedure, to be applied as soon as hostilities cease.

This procedure will be elaborated by the technical delegates of the Allies.

### D

Whereas for the purposes of their common defence against the enemy the Allied Powers have agreed to adopt a common economic policy, on the lines laid down in the Resolutions which have been passed, and whereas it is recognised that the effectiveness of this policy depends absolutely upon these Resolutions being put into operation forthwith, the Representatives of the Allied Governments undertake to recommend their respective Governments to take without delay all the measures, whether temporary or permanent, requisite for giving full and complete effect to this policy forthwith, and to communicate to each other the decisions arrived at to attain that object.

## APPENDIX III

### JAPAN'S DEMANDS ON CHINA, JANUARY 18, 1915<sup>1</sup>

#### SECTION I

The Japanese Government and the Chinese Government, being desirous of maintaining the general peace of eastern Asia and further strengthening the friendly relations and good neighborhood existing between the two nations, agree to the following articles:

*Article 1.* The Chinese Government engages to give full assent to all matters upon which the Japanese Government may hereafter agree with the German Government relating to the disposition of all rights, interests, and concessions which, by virtue of treaties or otherwise, Germany now possesses in relation to the Province of Shantung.

*Article 2.* The Chinese Government engages that within the Province of Shantung and along its coast no territory or island will be ceded or leased to a third power under any pretext whatever.

*Article 3.* The Chinese Government consents to Japan's building a railway from Chefoo or Lungkow to join the Kiau-Chau-Tsinan railway.

*Article 4.* The Chinese Government engages, in the interest of trade and for the residence of foreigners, to open by itself, as soon as possible, certain important cities and towns in the Province of Shantung as commercial ports. What places are

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<sup>1</sup> Stanley K. Hornbeck, *Contemporary Politics in the Far East* (1916), pages 307-11. Mr. Hornbeck, speaking of these "demands," says: "In the course of the contest which ensued and which was brought to a close—in some respects only—by the signing of treaties on May 25, the substance of Groups I and II of these demands underwent practically no changes. Certain modifications were made in Group III. Group IV was retained as it stood. And it was ultimately agreed that the discussion of Group V, with the exception of the provision regarding Fukien Province—which was retained—should be postponed."

## JAPAN'S DEMANDS ON CHINA

to be opened are to be decided upon by the two governments by separate agreement.

### SECTION II

The Japanese Government and the Chinese Government, since the Chinese Government has always recognized the special position enjoyed by Japan in South Manchuria and Eastern Inner Mongolia, agree to the following articles:

*Article 1.* The two contracting parties mutually agree that the term of lease of Port Arthur and Dalny, and the term of lease of the South Manchurian railway and the Antung-Mukden railway, shall be extended to the period of ninety-nine years.

*Article 2.* Japanese officials and common people in South Manchuria and Eastern Inner Mongolia shall have the right to lease or own land required either for erecting suitable buildings for trade and manufacture or for farming.

*Article 3.* Japanese officials and common people shall be free to reside and travel in South Manchuria and Eastern Mongolia, and to engage in business and in manufacture of any kind whatsoever.

*Article 4.* The Chinese Government agrees to grant to Japanese officials and common people the mining rights of all mines in South Manchuria and Eastern Inner Mongolia. What mines are to be opened shall be decided upon by the two Governments jointly.

*Article 5.* The Chinese Government agrees that in respect of the two cases mentioned herein below the consent of the Japanese Government shall first be obtained before action shall be taken:

(a) Whenever permission is granted to a subject of a third power to build a railway or to make a loan with a third power for the purpose of building a railway in South Manchuria or Eastern Inner Mongolia.

(b) Whenever a loan is to be made with a third power pledging the local taxes of South Manchuria or Eastern Inner Mongolia as security.

## COMMERCIAL POLICY

*Article 6.* The Chinese Government agrees that if the Chinese Government employs political, financial, or military advisers or instructors in South Manchuria or Eastern Inner Mongolia the Japanese Government shall first be consulted.

*Article 7.* The Chinese Government agrees that the control and management of the Kirin-Chang-Chun railway shall be handed over to the Japanese Government for a term of ninety-nine years, dating from the signing of this agreement.

### SECTION III

The Japanese Government and the Chinese Government, seeing that Japanese financiers and the Hanyehping Company have close relations with each other at present, and desiring that the common interests of the two nations shall be advanced, agree to the following articles:

*Article 1.* The two contracting parties mutually agree that when the opportune moment arrives the Hanyehping Company shall be made a joint concern of the two nations, and they further agree that without the previous consent of Japan, China shall not by her own act dispose of the rights and property, of whatsoever nature, of the said Company, nor cause the said Company to dispose freely of the same.

*Article 2.* The Chinese Government agrees that all mines in the neighborhood of those owned by the Hanyehping Company shall not be permitted, without the consent of the said Company, to be worked by other persons outside of the said Company, and further agrees that if it is desired to carry out any undertaking which, it is apprehended, may directly or indirectly affect the interests of the said Company, the consent of said Company shall first be obtained.

### SECTION IV

The Japanese Government and the Chinese Government, with the object of effectively preserving the territorial integrity of China, agree to the following articles:

The Chinese Government engages not to cede or lease to a third power any harbor, bay, or island along the coast of China.



# JAPAN'S DEMANDS ON CHINA

## SECTION V

*Article 1.* The Chinese Government shall employ influential Japanese as advisers in political, financial and military affairs.

*Article 2.* Japanese hospitals, churches and schools in the interior of China shall be granted the right of owning land.

*Article 3.* Inasmuch as the Japanese Government and the Chinese Government have had many cases of disputes between Japanese and Chinese police to settle, cases which have caused no little misunderstanding, it is for this reason necessary that the police departments of the important places in China shall be jointly administered by Japanese and Chinese, or that the Chinese police departments of these places shall employ numerous Japanese, so that they may at the same time help to plan for the improvement of the Chinese police service.

*Article 4.* China shall purchase from Japan a fixed amount of munitions of war, say 50 per cent. or more of what is needed by the Chinese Government, or there shall be established in China a Sino-Japanese jointly worked arsenal. Japanese technical experts are to be employed and Japanese material to be purchased.

*Article 5.* China agrees to grant to Japan the right of constructing a railway connecting Wuchang with Kiukiang and Nanchang, another line between Nanchang and Hangehou, and another between Nanchang and Chao-chou.

*Article 6.* If China needs foreign capital to work mines, build railways, and construct harbor works, including dock-yards, in the Province of Fukien, Japan shall be first consulted.

*Article 7.* China agrees that Japanese subjects shall have the right to propagate religious doctrines in China.

## APPENDIX IV

### ACT CREATING THE UNITED STATES TARIFF COMMISSION<sup>1</sup>

SEC. 700. That a commission is hereby created and established, to be known as the United States Tariff Commission (hereinafter in this title referred to as the commission), which shall be composed of six members, who shall be appointed by the President, by and with the advice and consent of the Senate, not more than three of whom shall be members of the same political party. In making said appointments members of different political parties shall alternate as nearly as may be practicable. The first members appointed shall continue in office for terms of two, four, six, eight, ten, and twelve years, respectively, from the date of the passage of this act, the term of each to be designated by the President, but their successors shall be appointed for terms of twelve years, except that any person chosen to fill a vacancy shall be appointed only for the unexpired term of the member whom he shall succeed. The President shall designate annually the chairman and vice chairman of the commission. No member shall engage actively in any other business, function, or employment. Any member may be removed by the President for inefficiency, neglect of duty, or malfeasance in office. A vacancy shall not impair the right of the remaining members to exercise all the powers of the commission, but no vacancy shall extend beyond any session of Congress.

SEC. 701. That each commissioner shall receive a salary of \$7,500 per year, payable monthly. The commission shall appoint a secretary, who shall receive a salary of \$5,000 per year, payable in like manner, and it shall have authority to employ and fix the compensations of such special experts, examiners, clerks, and other employees as the commission may from time to time find necessary for the proper performance of its duties.

With the exception of the secretary, a clerk to each commissioner, and such special experts as the commission may

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<sup>1</sup> Act of Congress approved September 8, 1916, entitled "An Act To increase the revenue, and for other purposes," Title VII.

## TARIFF COMMISSION ACT

from time to time find necessary for the conduct of its work, all employees of the commission shall be appointed from lists of eligibles to be supplied by the Civil Service Commission and in accordance with the civil-service law.

All of the expenses of the commission, including all necessary expenses for transportation incurred by the commissioners or by their employees under their orders in making any investigation or upon official business in any other places than at their respective headquarters, shall be allowed and paid on the presentation of itemized vouchers therefor approved by the commission.

Unless otherwise provided by law, the commission may rent suitable offices for its use, and purchase such furniture, equipment, and supplies as may be necessary.

The principal office of the commission shall be in the city of Washington, but it may meet and exercise all its powers at any other place. The commission may, by one or more of its members, or by such agents as it may designate, prosecute any inquiry necessary to its duties in any part of the United States or in any foreign country.

SEC. 702. That it shall be the duty of said commission to investigate the administration and fiscal and industrial effects of the customs laws of this country now in force or which may be hereafter enacted, the relations between the rates of duty on raw materials and finished or partly finished products, the effects of ad valorem and specific duties and of compound specific and ad valorem duties, all questions relative to the arrangement of schedules and classification of articles in the several schedules of the customs law, and, in general, to investigate the operation of customs laws, including their relation to the Federal revenues, their effect upon the industries and labor of the country, and to submit reports of its investigations as hereafter provided.

SEC. 703. That the commission shall put at the disposal of the President of the United States, the Committee on Ways and Means of the House of Representatives, and the Committee on Finance of the Senate, whenever requested, all information at its command, and shall make such investigations and reports as may be requested by the President or by either of said committees or by either branch of the Congress, and

## COMMERCIAL POLICY

shall report to Congress on the first Monday of December of each year hereafter a statement of the methods adopted and all expenses incurred, and a summary of all reports made during the year.

SEC. 704. That the commission shall have power to investigate the tariff relations between the United States and foreign countries, commercial treaties, preferential provisions, economic alliances, the effect of export bounties and preferential transportation rates, the volume of importations compared with domestic production and consumption, and conditions, causes, and effects relating to competition of foreign industries with those of the United States, including dumping and cost of production.

SEC. 705. That upon the organization of the commission, the cost of Production Division in the Bureau of Foreign and Domestic Commerce in the Department of Commerce shall be transferred to said commission, and the clerks and employees of said division shall be transferred to and become clerks and employees of the commission, and all records, papers, and property of the said division and of the former tariff board shall be transferred to and become the records, papers, and property of the commission.

SEC. 706. That for the purposes of carrying this title into effect the commission or its duly authorized agent or agents shall have access to and the right to copy any document, paper, or record, pertinent to the subject matter under investigation, in the possession of any person, firm, copartnership, corporation, or association engaged in the production, importation, or distribution of any article under investigation, and shall have power to summon witnesses, take testimony, administer oaths, and to require any person, firm, copartnership, corporation, or association to produce books or papers relating to any matter pertaining to such investigation. Any member of the commission may sign subpoenas, and members and agents of the commission, when authorized by the commission, may administer oaths and affirmations, examine witnesses, take testimony, and receive evidence.

Such attendance of witnesses and the production of such documentary evidence may be required from any place in the United States at any designated place of hearing. And in case

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of disobedience to a subpoena the commission may invoke the aid of any district court of the United States in requiring the attendance and testimony of witnesses and the production of documentary evidence, and such court within the jurisdiction of which such inquiry is carried on may, in case of contumacy or refusal to obey a subpoena issued to any corporation or other person, issue an order requiring such corporation or other person to appear before the commission, or to produce documentary evidence if so ordered, or to give evidence touching the matter in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof.

Upon the application of the Attorney General of the United States, at the request of the commission, any such court shall have jurisdiction to issue writs of mandamus commanding compliance with the provisions of this title or any order of the commission made in pursuance thereof.

The commission may order testimony to be taken by deposition in any proceeding or investigation pending under this title at any stage of such proceeding or investigation. Such depositions may be taken before any person designated by the commission and having power to administer oaths. Such testimony shall be reduced to writing by the person taking the deposition, or under his direction, and shall then be subscribed by the deponent. Any person, firm, copartnership, corporation, or association may be compelled to appear and depose and to produce documentary evidence in the same manner as witnesses may be compelled to appear and testify and produce documentary evidence before the commission, as hereinbefore provided.

Witnesses summoned before the commission shall be paid the same fees and mileage that are paid witnesses in the courts of the United States, and witnesses whose depositions are taken and the persons taking the same, except employees of the commission, shall severally be entitled to the same fees and mileage as are paid for like services in the courts of the United States: *Provided*, That no person shall be excused, on the ground that it may tend to incriminate him or subject him to a penalty or forfeiture, from attending and testifying, or producing books, papers, documents, and other evidence, in

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obedience to the subpoena of the commission; but no natural person shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing as to which, in obedience to a subpoena and under oath, he may so testify or produce evidence, except that no person shall be exempt from prosecution and punishment for perjury committed in so testifying.

SEC. 707. That the said commission shall in appropriate matters act in conjunction and coöperation with the Treasury Department, the Department of Commerce, the Federal Trade Commission, or any other departments, or independent establishments of the Government, and such departments and independent establishments of the Government shall cooperate fully with the commission for the purposes of aiding and assisting in its work, and, when directed by the President, shall furnish to the commission, on its request, all records, papers, and information in their possession relating to any of the subjects of investigation by said commission and shall detail, from time to time, such officials and employees to said commission as he may direct.

SEC. 708. It shall be unlawful for any member of the United States Tariff Commission, or for any employee, agent, or clerk of said commission, or any other officer or employee of the United States, to divulge, or to make known in any manner whatever not provided for by law, to any person, the trade secrets or processes of any person, firm, copartnership, corporation, or association embraced in any examination or investigation conducted by said commission, or by order of said commission, or by order of any member thereof. Any offense against the provisions of this section shall be a misdemeanor and be punished by a fine not exceeding \$1,000, or by imprisonment not exceeding one year, or both, in the discretion of the court, and such offender shall also be dismissed from office or discharged from employment. The commission shall have power to investigate the Paris Economy Pact and similar organizations and arrangements in Europe.

SEC. 709. That there is hereby appropriated, for the purpose of defraying the expense of the establishment and maintenance of the commission, including the payment of salaries herein authorized, out of any money in the Treasury of the United

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**States not otherwise appropriated, the sum of \$300,000 for the fiscal year ending June thirtieth, nineteen hundred and seventeen, and for each fiscal year thereafter a like sum is authorized to be appropriated.**

## APPENDIX V

### THE TARIFF BOARD AND WOOL LEGISLATION<sup>1</sup>

WILLIAM SMITH CULBERTSON

During the second session of the Sixty-second Congress no less than six different bills were offered in the Senate and House as revisions of the tariff schedule levying duties on wool and manufactures of wool. All of these bills, although differing widely from each other, were claimed by their framers to be based upon, or at least not at variance with, the findings of the Tariff Board<sup>2</sup> in its report on Schedule K. Even the Democrats in their long attack on this report said in conclusion:

So far as conclusions can be drawn from the board's report, it furnishes nothing to justify any change in the rates proposed in H. R. 11019.<sup>3</sup>

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<sup>1</sup> An article written by the author of this book in 1913, first published in the *American Economic Review* for March, 1913, and subsequently republished as House of Representatives Document No. 50, 63d Congress, 1st Session. In the sixth edition of his *Tariff History of the United States*, Dr. Frank W. Taussig, in discussing the tariff act of 1913, refers to this article and says (p. 431): "It would seem that (in the case of domestic woollens) the Democrats strove to apply the competitive principle. The inquiries of the defunct Tariff Board, and some further calculations based upon them, indicated that a duty of 35 per cent would correspond roughly to the difference in expenses of production between American and foreign manufacturers." The Tariff Board referred to is not the present Tariff Commission but the Board established by President Taft under the Tariff Act of 1909 and discontinued by failure of appropriation in 1912.

<sup>2</sup> Neither the Tariff Board nor any member of it assumes any responsibility for the use made of the board's statistics in this article or for any observations made about them. I take full and complete responsibility for the construction of the tables and for all the statements made and opinions expressed. (W. S. C.)

<sup>3</sup> (H. Rept. 455, 62d Cong., 2d Sess., p. 66.) H. R. 11019 is the bill passed by the Democrats of the House during the first session of the Sixty-second Congress which was prior to the publication of the Tariff Board's report. H. R. 22195 was identically the



## TARIFF BOARD AND WOOL LEGISLATION

Democrats, Progressives, and Republicans alike justified the rates in their respective bills by the facts and figures of the Tariff Board's report. Naturally, all this was quite confusing to the average citizen, and he asked repeatedly: Why did not the Tariff Board recommend rates to Congress? And if it had undertaken this task, what rates would it have recommended?

In answer to these questions, in the first place, it should be said that the Tariff Board was never intended to be a rate-making body. Its friends aspired to make it a substitute, not for Congress in its legislative capacity, but for the Ways and Means Committee and the Finance Committee in their capacity of collectors of tariff information. Under the Federal Constitution it is practically certain that Congress could not delegate legislative power to a board, but it can give power to investigate and report findings of fact. In the second place these questions suggest a belief, common enough in these days, that there are certain rates which once suggested would be accepted by all as obviously correct. To state this proposition is to answer it, for it must be clear to anyone acquainted with American tariff controversies that the abuse hurled at the Tariff Board last winter would be as nothing compared with the abuse such action would arouse. The fact of the matter is the Tariff Board never intended to go beyond reporting facts and it persistently refused, under urgent political demands, to give even an opinion of what rates it considered equitable and just. No one realized the difficulties of the problem as well as the members of the board themselves and they declined to allow the zeal of those who saw the limitations of a tariff board less clearly than they, to defeat its real usefulness. Tariff making is fundamentally a question of theory rather than a question of statistics. There is no set of rates which are obviously and absolutely equitable and just, for the question which must always be answered first is: "Equitable and just on what political and economic theory?" Rates equitable and just from the standpoint of revenue might be very inequitable and unjust from the standpoint of protection.

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same bill, introduced after the Tariff Board's report was published. Both of these bills, after being modified in conference with the Senate Progressives, were passed by both branches of Congress and vetoed by the President.

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In like manner, rates equitable and just from the point of view of national exclusiveness might be very inequitable and unjust from the point of view of active foreign competition. It will be profitable to examine further the political and economic difficulties in the way of delegating the power of making or recommending rates to a tariff board or commission.

No board could suggest rates until it assumed the tariff policy of some political party to be desirable. Obviously it is not within the province of pure reason to decide which is preferable—a tariff for revenue only or a protective tariff. Complete statistics and facts might be gathered on all schedules of the tariff act and still this question would be no nearer solution. Its answer is found in the political sentiments of the electorate and as long as the voters are the ultimate source of power in the United States the answer must come from them. If the voters through their Representatives in Congress were unanimously in favor of a given tariff policy this obstacle to delegating ratemaking power to a board would be removed for the time being; but it often happens, as it did in the Sixty-second Congress, that different tariff theories prevail in the majorities of the two branches of Congress. In such a case no board could remain nonpartisan that did not attempt to recommend rates based on both tariff theories. It is not likely that the two or three great political parties will very soon agree upon a common tariff program, and, until they do, no commission can take the tariff out of politics. In the past, the political premises on which Congress has prepared tariff acts have been determined at the polls and it seems hardly probable that the people will ever relinquish this right. The Tariff Board as it was constituted of course had no power even to recommend rates, but this discussion should make it clear that if it had undertaken this task it would have been forced to premise its conclusions with some political theory of tariff making.

The political difficulty which stood in the way of the Tariff Board's recommending rates having been outlined, there is the economic difficulty to be noticed. If the board had assumed for the purpose of making a set of rates that a given political tariff theory were desirable, it would have been face to face with the question of efficiency. In the Tariff Board's report on Schedule K there is a vast amount of information relating

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to efficiency and economic conditions which no tariff maker can disregard; but the use of it removes the task of rate making from the field of mathematics to that of personal judgment. Rate making becomes, then, no longer the work of a statistician, but the work of those with authority to say what the policy of the country is to be regarding a particular industry. An example may make this point clear.

The woolgrowing industry in the United States presents to the legislator a very complex problem — the problem of what parts of the industry should be preserved and what parts, if any, should be eliminated by foreign competition. Three distinct divisions of the woolgrowing industry exist in the United States: (1) The fine-wooled merino sheep, chiefly in Ohio and the neighboring States, which can not exist unless at least the present tariff rates are maintained; (2) the crossbred flocks which would exist even under free wool; and (3) the flocks of the ranch States of the far West, the amount of protection required for them being a matter of debate. These facts present a problem of what is economically desirable, and the conclusions reached by study of them will depend primarily upon the student's economic assumptions.

Those with a leaning toward free trade, who approach and study the part of the Tariff Board report treating of woolgrowing, can with ease construct an argument in favor of free wool. This conclusion is reached by studying the efficiency of woolgrowing in the United States as compared with that in Australia and England. Cost figures are not ignored; they are accepted as the cost of producing wool in the United States under the existing conditions. Such students advocate changing these conditions and thereby reducing the costs.

In pursuing their argument they consider, in the first place, the sheep in the Eastern States. They claim that the high cost of production of fine merino wool, as shown by the Tariff Board, proves, not that high protection is needed, but that it is economically unprofitable to maintain in the United States the fine-wooled merino sheep; that the crossbred flocks, which produce wool at a negligible cost, are peculiarly adapted to the farming conditions of our Eastern States; and that if the tariff on wool were removed, the owners of the fine-wooled flocks would be forced to cross their ewes with the mutton breeds, and by this means the woolgrowing industry of the

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East would gradually become a profitable supplement to general farming, as it is in Great Britain, and not a highly specialized industry, as it is to-day in parts of Ohio and Michigan.

Continuing their argument these advocates of free wool turn to the great flocks of our western ranges and they contrast the breeding, pasturing, and management of the flockmasters of Australia, New Zealand, and Argentina with the conditions in our West. They claim that if the methods of the former were adopted in this country, the costs of producing wool would be reduced so that our flockmasters could compete successfully with all the world without the tariff. They admit that free wool would force a readjustment in the West as well as in the East, but they say it would place the industry on a much sounder economic foundation.

On the contrary, the advocates of high protection can argue from the part of the Tariff Board's report treating of woolgrowing that the rate on merino wool should be even higher than 11 cents per pound. It is said that very fine merino wools are becoming more and more scarce each year with the inroads which the mutton sheep are making upon the merino flocks of the world; that unless the source of supply of these wools is maintained certain phases of wool manufactures can not continue; and that this source of supply can not be preserved unless a high level of protection is maintained. Very plausible arguments can also be made in favor of the existing status of the woolgrowing industry because a lowering of the duties would inevitably cause suffering both among the sheep owners and those employed in the industry.

The legislator who conscientiously endeavors to consider impartially the arguments of the free trader and the protectionist has hard questions to answer. Shall Congress, for the sake of preserving a comparatively small number of fine merino sheep, burden the manufacturer directly and the consumer indirectly with a duty adequate to protect the grower with the highest costs? Or shall Congress say that, since the cost of producing cross-bred wool is negligible, it would be better to force all woolgrowers in the United States to produce this kind of wool by having free wool, as the United Kingdom has with her 31,000,000 sheep? Or shall Congress take a middle course and preserve such parts of the industry as are consistent with

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a moderate duty? Any of these questions might be answered affirmatively from the report of the Tariff Board; but, whatever may be the correct attitude to assume toward this great industry, all will surely agree that no board, however wise, should determine the answer to the question. This question involves the problem of the Nation's policy toward its industries; and, as long as there are political questions, the question of the preservation or destruction of industries will be, and most men would say ought to be, one of them. The subject is discussed somewhat at length here in order to show the nature of the efficiency problem. It must be clear that statistics are of little value in tariff making unless accompanied by sound judgment. "Without judgment," Mr. Emery says,<sup>4</sup> "statistics are useless; without statistics, judgment is unreliable."

Having pointed out what would seem to be both political and economic obstacles to delegating to an executive board general power to recommend rates, a partial solution will be suggested.

If it be admitted that a board be desirable, one of its powers would, of course, be the accumulation of information on all phases of the tariff controversy. On the basis of this information Congress, having first laid down the political and economic premises on which the board was to proceed, might request it to submit a set of rates based on the premises laid down. Such questions as these might be submitted to the board for answer: (a) What would be the immediate and ultimate effect of free wool upon the domestic industry; upon the consumer? (b) What rate of duty on raw sugar would eliminate the cane-growing industry of the South and still preserve the beet-sugar industry? (c) Assuming the theory of tariff for revenue only to be desirable, what set of rates on wool and wool manufactures would most equitably raise \$50,000,000 per annum? (d) Assuming that the tariff should equal the difference in cost of production between the United States and foreign countries and that the *status quo* of the woolgrowing and wool-manufacturing industries is to remain substantially unchanged, what should the rates in Schedule K be? There seems to be no reason why a board could not give answers to these and similar hypothetical questions. This plan would leave to the legislative branch of the Government not only the

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<sup>4</sup> H. C. Emery, "The Tariff Board and its Work." Speech delivered at Chicago, Dec. 3, 1910, p. 11.

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power of fixing the premises upon which the board was to proceed, but also the privilege of finally accepting or rejecting the recommendations of the board; and still it would leave a very useful field of work for an executive board or bureau.

For the purposes of this article it is assumed that Congress desires an answer to the last of the questions asked above and that the facts to be used are those found in the Tariff Board's report on Schedule K. This question takes for granted two facts: (1) That such protective duties should be levied "as will equal the difference between the cost of production at home and abroad," and (2) that the *status quo* of the wool-growing and wool-manufacturing industries should remain substantially unchanged — that is, the question of efficiency is to be practically disregarded. Both of these premises are debatable, and the writer, by propounding them, in no way commits himself either to their support or opposition. Plausible arguments can be made for or against both propositions. It is necessary, however, before the discussion can proceed, to assume some of the varying factors in the tariff problem to be constant, and there are some reasons why the premises chosen are the most desirable in studying the report of the Tariff Board.

The most important reason is the nature of the Tariff Board. The board was a by-product of a protective tariff bill, the pet of a President committed to protection; and it was requested to apply the rule of protection contained in the Republican platform of 1908. Its founders undoubtedly expected it to consider the protective system beyond controversy. It began work with a presumption, therefore, against its nonpartisan attitude. If it had been composed of political opportunists, it might easily have become a mere tool of the protective interests; or if it had started out like the so-called tariff commission of 1882 to hold hearings, the personal would have overshadowed the scientific element and the board would have been little more than a poor substitute for the Ways and Means Committee; but the members of the board<sup>5</sup> realized that

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<sup>5</sup> At the time of the publication of the report on Schedule K the members of the Tariff Board were: Henry C. Emery, professor at Yale; Alvin H. Sanders, editor of the *Breeders' Gazette*, Chicago; James B. Reynolds, formerly Assistant Secretary of the Treasury; William M. Howard, formerly congressman from

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legislators needed, not more comments and figures compiled by interested parties, but a careful scientific investigation of each schedule of the tariff, and this they began carefully to make. While considering the cost of production one of the phases of the problem deserving study, they did not limit their study to it, and in the report many other phases of the question are carefully considered which have been obscured by the political significance attached to the cost of production. The work of the Tariff Board, lamentably brief as it was, laid the foundation for a scientific investigation of the tariff; it broke the grip on legislation which a few interested parties, by their knowledge of the tariff and by personal influence, had maintained, and it proved conclusively that the Almighty did not lodge all wisdom in the committee rooms of Congress.

It remains true, nevertheless, that in the public mind the work of the Tariff Board and the cost-of-production theory of the Republican platform of 1908 are inseparable and for that reason this theory is given prominence in this article.

A subject which can only be touched upon in this article is the relative value of ad valorem and specific duties. In this country, as a rule, the advocates of revenue tariffs have favored the former; the advocates of protection, the latter. The Tariff Board made some very pertinent observations on this subject and stated that —

from the point of view of protecting the domestic manufacturer by equalizing the difference in cost of production at home and abroad by means of tariff duties, the system of specific duties is the natural and logical method.\*

It has been said that a flat specific rate bears unequally upon those who buy wool, because it does not adjust itself to a wide range of prices. This is true. But it is equally true that a flat ad valorem rate gives very unequal protection; 30 per cent on 20-cent wool is much less protection than 30 per cent on 40-cent wool and still it may be that 20-cent wool requires as much protection as 40-cent wool. This of course is only another case of the necessity of determining your premises

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Georgia; and Thomas W. Page, professor at University of Virginia.

\* Report of the Tariff Board on Schedule K, 62d Cong., 2d sess.; H Doc. No. 342, p. 709.

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before proceeding to discuss tariff questions. The premises on which this article is written establish a presumption in favor of specific duties. But in order to avoid confusion this question will not be discussed in detail. *Ad valorem* and specific duties will in most cases be treated as though of equal value.

Schedule K of the tariff act of August 5, 1909, fixes the import duties upon a large variety of wool products. In this discussion the following will be considered both because they are the most important and because the statistics of the Tariff Board upon them are most complete: Raw wool, tops, worsted yarn, woolen and worsted fabrics.

### RAW WOOL

In ascertaining the cost of producing wool in the United States the Tariff Board considered wool as the chief product of the flocks and credited against the total cost all receipts from sources other than wool. In the case of the fine-wooled merino flocks, where wool was the only source of income, the entire cost of maintaining the flocks was charged against the wool and as a result the cost of production was high. On the contrary, in the case of the crossbred flocks the receipts from mutton were subtracted from the total cost of maintenance and the resulting figure was taken as the cost of producing the wool. By this means the cost of producing wool was often shown to be negligible.

Nowhere in the Tariff Board's report do figures, considered alone, prove more discouraging than in the volume on raw wool. The cost of producing wool is shown to range from less than nothing up to over 35 cents per pound, and these statistics can be studied intelligently only in the light of the facts with which the Tariff Board supplemented them. The extremely high costs are given some weight by the board in making up its averages. Its conclusions recognize three broad divisions of the woolgrowing industry in the United States.

In the western region of the United States, with approximately 35,000,000 sheep, the net charge against a pound of wool is about 11 cents. In the other sections, with about 15,000,000 sheep, the net charge against a pound of wool from the merino sheep, which number approximately 5,000,000, is about 19 cents, and the net



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charge against the wool grown on sheep of the crossbred type is negligible.<sup>7</sup>

The costs from which the average net charge of 11 cents against wool raised in the western ranges was obtained are shown in Table 1.<sup>8</sup>

TABLE 1. — NET CHARGE AGAINST WOOL PRODUCED IN THE RANGE STATES

Pounds of wool		Receipts		Average net charge against wool per pound
Number	Percentage of total	Percentage from wool	Percentage from other sources	
2,636,297	12.7	47.7	52.3	\$0.237
3,836,815	18.5	49.8	50.2	.168
5,459,088	26.3	47.4	52.6	.119
4,665,141	22.5	42.0	58.0	.077
2,293,087	9.0	36.2	63.8	.027
1,874,287	11.0	28.9	71.1	+.039
20,764,713	100.0	43.0	57.0	.109

The costs from which the average net charge of 19 cents against the fine merino wool raised in the eastern States was obtained are shown in Table 2.<sup>9</sup>

TABLE 2. — NET CHARGE AGAINST FINE MERINO WOOL PRODUCED IN THE EASTERN STATES

Pounds of wool		Receipts		Average net charge against wool per pound
Number	Percentage of total	Percentage from wool	Percentage from other sources	
37,934	6	78	22	\$0.42
57,083	10	77	23	.32
90,886	15	71	29	.27
129,169	22	71	29	.22
248,519	42	57	43	.12
29,588	5	38	62	.06
592,979	100	64	36	.19

<sup>7</sup> Report of the Tariff Board on Schedule K, pp. 376-377.

<sup>8</sup> *Ibid.*, p. 329.

<sup>9</sup> *Ibid.*, p. 369.

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The conclusion of the Tariff Board that the net charge against wool grown on crossbred flocks in eastern United States is negligible is based on the study of 159,396 pounds of wool. The total receipts from the crossbred flocks investigated were \$114,099.74, of which 33 per cent was from wool and 67 per cent from other sources. The receipts from sources other than wool a little more than covered the total cost of maintaining the flocks, which leaves the wool "velvet"; that is, there was no net charge against it.<sup>9</sup>

There are, then, in the United States three distinct classes of sheep which produce wool at widely varying costs. Before a rate of protection can be agreed upon a national average cost must be fixed. It might be suggested that if the *status quo* is to be maintained absolutely the rate of protection must be sufficiently high to protect the highest cost. However logical this suggestion may be, it is not practical, and the position of the Tariff Board seems reasonable on this point. After giving due weight to the high and the low costs in the United States it concluded that the average net charge against the wool clip of the country is about  $9\frac{1}{2}$  cents per pound.<sup>10</sup>

Turning now to the cost of producing wool abroad, the Tariff Board summarized its findings by saying that the average net charge against wool in South America is "between 4 and 5 cents per pound" and that "taking Australasia as a whole it appears that a charge of a very few cents per pound lies against the great clips of that region in the aggregate."<sup>11</sup>

Without questioning, therefore, the possibility of choosing other costs equally entitled to consideration, it seems at least fair to take  $9\frac{1}{2}$  cents as the net charge against wool in the United States and 3 cents as the net charge against wool produced by our greatest foreign competitor. These are charges per grease pound. Considering all grades of wool, the shrinkage of American wool may be taken as 60 per cent and of Australian wool at 50 per cent.<sup>12</sup> If now the much debated recommendation of the board to assess the duty on the scoured content of grease wool be accepted, a duty can be calculated. If it costs in the United States 9.5 cents to produce a pound of grease wool shrinking 60 per cent, it will cost 23.75 cents

<sup>10</sup> *Ibid.*, p. 377.

<sup>11</sup> *Ibid.*, p. 11.

<sup>12</sup> *Ibid.*, pp. 383-385.

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to produce a pound of clean wool; if it costs in Australia 3 cents to produce a pound of wool shrinking 50 per cent, it will cost 6 cents to produce a pound of clean wool. The difference between these two results is 17.75 cents, which is the difference in cost of production per scoured pound of wool between the United States and Australia. If the legislator desires to levy a flat specific rate, it will require according to this calculation about an 18-cent rate to protect the wool-growing industry in this country without forcing any serious readjustment.

To determine what ad valorem rate will give protection equal to 18 cents per scoured content pound is a complex problem, for obviously the per cent of protection fluctuates with the price. Table 3 presents representative wools and the ad valorem duty equivalent to 17.75 cents.

TABLE 3.—AD VALOREM RATE ON RAW WOOL

Grade of wool	Price per scoured pound in 1910	Difference in cost per scoured pound	Per cent of protection needed
Port Philip scoured.....	\$0.487	\$0.1775	36.45
Sidney scoured, good.....	.477	.1775	37.21
South African, very best.....	.507	.1775	35.01
Sidney scoured, average.....	.395	.1775	44.94
Australian crossbred, superior.....	.467	.1775	38.01
Australian crossbred, average.....	.294	.1775	60.37

Here again much depends upon judgment, for by choosing very high or very low prices widely divergent ad valorem rates can be shown to be required. In Table 3 representative foreign wools have been chosen, and the conclusion to be drawn from the table is that 35 per cent, possibly 40 per cent, protection is necessary to protect the existing conditions of the wool-growing industry.

The rates levied on raw wool in the various bills introduced into Congress in the second session of the Sixty-second Congress were:

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Cummins bill.....	18 cents per clean content pound (with proviso that no rate should be over 45 per cent). <sup>13</sup>
Hill bill.....	18 cents per clean-content pound. <sup>14</sup>
Penrose bill.....	18 cents per clean-content pound. <sup>15</sup>
Underwood bill.....	20 per cent ad valorem. <sup>16</sup>
La Follette bill.....	35 per cent ad valorem. <sup>15</sup>
Compromise bill.....	29 per cent ad valorem. <sup>17</sup>

### Tops

Tops are combed wool and consist of continuous strands of wool in which the fibers lie more or less parallel. They constitute a distinct product, and in England and on the Continent particularly they are produced by a branch of wool manufacturing as distinct as the operations of spinning and weaving. The Tariff Board shows that the conversion costs<sup>18</sup> of producing tops varies both with the process employed (whether French or English) and with the amount of output. A good illustration of the latter is given in its report. The total production of a combing mill for 25 months of domestic half-blood tops is divided into four periods. In the first period 46.40 per cent of the total output was produced at the cost of 4.91 cents per pound; in the second period 24.19 per cent of the total output was produced at a cost of 6.79 cents per pound; in the third period 16.81 per cent of the total output was produced at a cost of 7.75 cents per pound; and in the fourth period 12.60 per cent of the total output was produced at a cost of 10.05 cents per pound.<sup>19</sup>

"Top making" is a more comprehensive term than "combing." The cost-of-production figures given by the board are for combing and do not include such costs as storage, losses from off sorts, etc., which a manufacturer making tops alone must take account of. The board does not state to what extent the cost of top making exceeds the cost of combing, so

<sup>13</sup> Amendment to H. R. 22195, proposed July 24, 1912.

<sup>14</sup> H. R. 22262, proposed Mar. 22, 1912.

<sup>15</sup> Amendment to H. R. 22195, proposed July 27, 1912.

<sup>16</sup> H. R. 22195, proposed Mar. 21, 1912.

<sup>17</sup> H. Rept. No. 1130, Aug. 2, 1912.

<sup>18</sup> By conversion cost is meant the cost of converting the raw material into the finished product. It does not include the cost of materials.

<sup>19</sup> Report of the Tariff Board on Schedule K, p. 642.

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that the opinion of the trade must be resorted to. It seems to be recognized that the cost of top making is 50 per cent greater than of combing and this percentage has been used in determining the costs in this article.

For the purpose of this discussion the costs of combing with English combs has been adopted and allowance has been made for the fluctuations in costs due to fluctuations in output. Table 4 presents the costs of the Tariff Board<sup>19</sup> which seem most nearly to represent the board's conclusions.

TABLE 4. — THE CONVERSION COST OF COMBING AND TOP MAKING PER POUND IN THE UNITED STATES

Quality of top	Conversion cost of combing	Conversion cost of top making (combing plus 50 per cent)
Unwashed territory, one-half blood or above.....	\$0.0760	\$0.1140
Australian and domestic, one-half blood and above...	.0679	.1018
Unwashed territory, three-eighths blood.....	.0619	.0928
Australian or domestic, three-eighths blood.....	.0610	.0915
Australian or domestic high, one-quarter blood.....	.0562	.0843
Quarter blood.....	.0448	.0672

The Tariff Board gave no elaborate statistics on the cost of combing and top making abroad. But it felt able, upon the basis of its information, to state the relative positions of the industry in this country and in England. "In view of the facts related," it says in conclusion, "it seems a fair statement that the cost of making tops in the United States is about 80 per cent greater than abroad."<sup>20</sup> For a given product in England, therefore, with a cost of 100 units there would be in the United States a cost of 180 units.

The foregoing conclusions are adhered to in subsequent calculation on the costs of producing tops. In Table 5 the effect of the top duties in the La Follette, Underwood, and Compromise bills are compared with the Tariff Board costs. The conclusions of the table, it should be noted, consider only the differences in conversion costs.

In constructing this table English prices were taken for standard qualities of tops. The total English cost (column 2)

<sup>20</sup> *Ibid.*, pp. 644-645.

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**TABLE 5.—THE NET PROTECTION GIVEN TO TOPS BY THE  
LA FOLLETTE, UNDERWOOD, AND COMPROMISE BILLS COM-  
PARED WITH THE FINDINGS OF THE TARIFF BOARD**

Quality of tops	English price (1911)	English total cost	English top-making conversion cost	Cost of wool in 1 pound of top	Compensatory Duty		
					La Follette bill (35 per cent) <sup>1</sup>	Underwood bill (20 per cent) <sup>1</sup>	Compromise bill (29 per cent) <sup>1</sup>
	1	2	3	4	5	6	7
32s.....	\$0.261	\$0.2486	\$0.0374	\$0.2112	\$0.0739	\$0.0422	\$0.0612
36s.....	.269	.2562	.0468	.2094	.0733	.0419	.0607
40s.....	.274	.2610	.0509	.2101	.0735	.0420	.0609
50s.....	.360	.3429	.0516	.2913	.1020	.0583	.0845
64s.....	.533	.5076	.0566	.4510	.1579	.0902	.1308
80s.....	.593	.5648	.0933	.5015	.1755	.1003	.1454

Quality of tops	Protection under			Protection needed according to Tariff Board
	La Follette bill (40 per cent) <sup>2</sup>	Underwood bill (25 per cent) <sup>2</sup>	Compromise bill (32 per cent) <sup>2</sup>	
	8	9	10	11
32s.....	\$0.0305	\$0.0231	\$0.0223	\$0.02992
36s.....	.0343	.0254	.0254	.03744
40s.....	.0361	.0265	.0268	.04072
50s.....	.0420	.0317	.0307	.04128
64s.....	.0553	.0431	.0398	.04528
80s.....	.0617	.0480	.0444	.05064

<sup>1</sup> Total duty on raw wool.

<sup>2</sup> Total duty on tops.

was computed by subtracting from the price an assumed distribution expense and profit of 5 per cent. An objection will be made to this method on the ground that it is "unscientific," but for the purpose of this discussion it is likely to be more accurate than the computation of the total English cost from the prices of raw wool. The English top-making conversion costs are computed from the statistics of the Tariff Board, and by subtracting them from the total English cost the cost of the wool in 1 pound of top is determined. The compensatory duty in cents under each of the bills is computed by multiplying the figures in column 4 by the ad valorem rate imposed by the respective bills upon raw wool. The English price is then multiplied by the ad valorem rate fixed by each bill on tops, and from the result is subtracted the correspond-

## TARIFF BOARD AND WOOL LEGISLATION

ing compensatory duties. This gives the net amount of protection under each bill and is to be compared with the difference in conversion costs between this country and England, as determined by the Tariff Board (column 11).

If the prices used in Table 5 had been for a low-price year, the net protection given by each of the bills would have been less than shown. This is, from the point of view of protection, one of the unavoidable disadvantages of ad valorem duties. A given ad valorem rate may be protective when prices are at one level and not protective when they are at another.

In the La Follette, Underwood, and Compromise bills, where the duty on tops was a flat ad valorem rate, it was possible to compute the net protection separately from the compensatory duty. In studying the Penrose and Hill bills, where the duty on the tops was a specific and a compound duty, respectively, a different method must be followed. Table 6 is a comparison of the total protection and compensation given on tops by the Penrose and Hill bills with the total protection and compensation required according to the Tariff Board.

TABLE 6. — THE DUTIES ON TOPS IN THE PENROSE AND HILL BILLS  
COMPARED WITH THE TARIFF BOARD COSTS

Quality of tops	Price in England (1911)	Duty under Penrose bill	Duty under Hill bill	Protection and compensation needed per Tariff Board <sup>1</sup>	Duty under Penrose bill	Duty under Hill bill	Protection and compensation needed
	<i>Per pound</i>	<i>Per pound</i>	<i>Per pound</i>	<i>Per pound</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
32s.....	\$0.261	\$0.23	\$0.2131	\$0.2449	107.28	81.65	93.83
36s.....	.269	.28	.2135	.2524	104.09	79.37	93.83
40s.....	.274	.28	.2137	.2557	102.19	77.99	93.32
50s.....	.360	.28	.2180	.2563	77.78	60.56	71.19
64s.....	.533	.28	.2267	.2603	52.53	42.53	48.83
80s.....	.593	.28	.2208	.2656	47.22	38.75	44.79

<sup>1</sup> \$0.215 plus difference in conversion cost.

The Penrose bill levies a flat specific rate of 28 cents on tops, and the rate under the Hill bill is 20 cents per pound and 5 per cent ad valorem. From these rates the duty in cents per pound is arrived at. In computing the total protection and compensation required according to the Tariff Board, 18 cents is adopted as the duty on the clean content of wool, and,

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making allowance for waste, 21½ cents was taken as a fair compensatory duty; that is, the duty which must be assessed in order simply to compensate the domestic top maker for the rise in the price of his raw material due to the 18-cent duty on raw wool. To this compensatory duty was added the difference in conversion cost between here and abroad as set forth in column 11 of Table 5. The last three columns in Table 6 are the preceding three expressed in percentages.

One of the noticeable features of the percentages in Table 6 is the fact that the tops of low quality receive or require a larger duty than the tops of a higher quality. Such a difficulty arises inevitably from a flat specific compensatory duty. In theory, if the rate of duty on raw wool is the same on all grades of wool, the compensatory duty on the manufactured product should be the same on all qualities. In practice, however, a flat specific compensatory duty bears more heavily on the lower than on the higher qualities of product, and it results in a higher ad valorem equivalent on the lower qualities. Apparently, the practical thing to do is to grade the compensatory duties in order to retain, from the point of view of protection, the advantages of specific duties and still eliminate the excessive duties on the lower qualities.

On the basis of the premises of this article, then, what is a fair rate on tops? Table 5 shows that 40 per cent ad valorem is adequate, in most cases, if the duty on raw wool is 35 per cent ad valorem, but a somewhat higher rate is defensible, as will be observed from Table 6. A decline in price would, of course, make the calculations of this table useless. From the standpoint of protection, if the duty on raw wool is specific, the duty on tops should also be specific. The conversion cost of tops is, as compared with the material cost, relatively small and their price is affected directly by the price of raw wool. For the protectionist the most desirable method for levying the duty on tops would seem to be a carefully graded specific duty. If this be conceded and if the duty on raw wool be 18 cents on the clean pound, a duty of 26 or 27 cents per pound of tops of 60s quality, graded both up and down, would undoubtedly be a fair duty—granted, of course, the premises on which the calculations have been made.



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## WORSTED YARNS

The conversion costs of converting tops into worsted yarns in the United States, as found in the report of the Tariff Board, are summarized in Table 7.

TABLE 7. — CONVERSION COST PER POUND OF PRODUCING WORSTED YARNS FROM TOPS IN THE UNITED STATES <sup>21</sup>

Ply and Count of Yarn	Conversion Cost per Pound
2/28	\$0.1262
2/32	0.1448
2/36	0.1648
2/38	0.1749
2/40	0.1798
2/42	0.1847
2/44	0.2055
2/46	0.2267
2/48	0.2335
2/60	0.3181

After discussing the American costs and comparing them with English costs, the Tariff Board sums up the relative competitive positions of the two countries in the following words:

In view of the fact that the figures as given for the United States have been put at what may be considered a low figure when compared with the large number of mills from which figures were received, it may be said that, making due allowance for variations on account of quality, etc., the actual manufacturing cost in the United States for turning tops into yarn is about twice what it is in England.<sup>22</sup>

The conversion cost of converting tops into yarns in England, then, may be taken as substantially one-half the costs presented in Table 7.

The costs here discussed include those of drawing, spinning, twisting, and spooling, and do not include those of sorting, carding, and combing, which were considered under the cost of making tops. It is necessary, therefore, in order to determine the cost of converting raw wool into worsted yarns, to add to the costs of converting tops into yarn the costs of combing. This has been done in making the subsequent tables on yarns. To one who analyzes carefully the figures of these tables it will be evident that the cost of combing alone, not

<sup>21</sup> *Ibid.*, p. 649.

<sup>22</sup> *Ibid.*, p. 650.

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the cost of top making, has been added to the cost of converting tops into yarn; that is, the 50 per cent added to the cost of combing in computing the cost of top making is not here added in computing the total conversion cost of yarn. The reason for this is the fact that some of the costs incidental to a combing establishment are absent where combing is merely one department of a spinning mill.

In Table 8 the net protection on worsted yarns given by the La Follette, Underwood, and Compromise bills is computed and compared with the findings of the Tariff Board.

**TABLE 8.—THE NET PROTECTION GIVEN TO WORSTED YARNS BY THE LA FOLLETTE, UNDERWOOD, AND COMPROMISE BILLS AND COMPARED WITH THE FINDINGS OF THE TARIFF BOARD**

1	2	3	4	5	6
Count of yarn	Price of yarn in England (July 27, 1911)	Total cost of yarn	Conversion cost in England from wool to yarn	Cost of wool in 1 pound of yarn	La Follette bill: Compensatory duty (35 per cent) <sup>1</sup>
2/32s.....	\$0.4157	\$0.3695	\$0.0973	\$0.2722	\$0.0953
2/36s.....	.4714	.4191	.1136	.3053	.1069
2/40s.....	.5120	.4511	.1238	.3313	.1160
2/48s.....	.7097	.6308	.1512	.4796	.1679
2/60s.....	.8111	.7210	.1968	.5242	.1835
2/80s.....	1.1761	1.0454	.2724	.7730	.2706

1	7	8	9	10	11	12
Count of yarn	Underwood bill: Compensatory duty (20 per cent) <sup>1</sup>	Compromise bill: Compensatory duty (20 per cent) <sup>1</sup>	Protection given by La Follette bill (45 per cent) <sup>2</sup>	Protection given by Underwood bill (30 per cent) <sup>2</sup>	Protection given by Compromise bill (35 per cent) <sup>2</sup>	Protection needed according to Tariff Board
2/32s....	\$0.0544	\$0.0789	\$0.0918	\$0.0703	\$0.0866	\$0.0923
2/36s....	.0611	.0886	.1052	.0803	.0764	.1074
2/40s....	.0663	.0961	.1144	.0873	.0831	.1170
2/48s....	.0939	.1391	.1515	.1170	.1093	.1443
2/60s....	.1048	.1520	.1815	.1385	.1319	.1893
2/80s....	.1546	.2242	.2536	.1982	.1874	.2620

<sup>1</sup> Total duty on raw wool.

<sup>2</sup> Total duty on yarn.

In Table 8 the total cost of the yarn is computed in substantially the same way as it was computed in the case of

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tops (Table 5); that is, an allowance of 12½ per cent to cover distribution expenses and profit was taken from the price. From the total cost was subtracted the English conversion cost in order to determine the cost of wool in 1 pound of yarn (column 5). Column 5 is then multiplied by the rates on raw wool in the respective bills in order to determine the amount of yarn duty needed for compensation. Columns 9, 10, and 11 are the rates on yarn in the respective bills times the price and less the compensatory duty. The result gives the net protection furnished by each bill and should be compared with the protection needed according to the findings of the Tariff Board (column 12).

The protection on yarns needed according to the Tariff Board in Table 8 is a minimum. The net protection given by even the La Follette bill falls in most cases slightly under the protection required. It may be fairly said that 45 per cent on the basis of 35 per cent on raw wool is not, according to the Tariff Board, sufficient protection. The fact should be noted, also, that a decline in the price of yarns would, under ad valorem duties, reduce the net protection given.

Table 9 presents the total protection and compensation given

TABLE 9.—THE TOTAL DUTIES ON WORSTED YARNS UNDER THE  
PENROSE AND HILL BILLS COMPARED WITH THE FINDINGS  
OF THE TARIFF BOARD

Count of yarn	1  Price of yarn in England July 27, 1911	2  Duty under Penrose bill	3  Duty under Hill bill	4  Protec- tion and com- pensation needed according to Tariff Board on basis of 18-cent wool <sup>1</sup>	5  Duty under Penrose bill	6  Duty under Hill bill	7  Protec- tion and compensation needed according to Tariff Board
		<i>Per pound</i>	<i>Per pound</i>	<i>Per pound</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
2/32s.....	\$0.4157	\$0.390	\$0.2774	\$0.3223	93.82	66.73	77.53
2/36s.....	.4714	.400	.2857	.3374	84.85	60.61	71.57
2/40s.....	.5120	.410	.3174	.3470	80.08	61.99	67.77
2/48s.....	.7097	.442	.3569	.3743	62.28	50.29	52.74
2/60s.....	.8111	.490	.4178	.4193	60.41	51.51	51.70
2/80s.....	1.1761	.570	.5090	.4920	48.47	43.28	41.83

<sup>1</sup> \$0.23 plus difference conversion cost.

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by the Penrose and Hill bills on yarns and the amount required according to the findings of the Tariff Board.

The yarn duty in the Penrose bill, as shown in column 2, is a graded specific duty — graded according to the count of the yarn. The duty in the Hill bill is a compound duty, and the computations for the yarns in the table are shown in column 3. Column 4 shows the protection and compensation, in cents, required according to the Tariff Board and is made up of a compensatory duty of 23 cents per pound, and the difference in conversion costs for yarns as found in column 12 of Table 8. It will be noticed that this compensatory duty is higher than the one recommended by the board when the duty on raw wool is 18 cents.<sup>23</sup> This is a concession to the critics of the board who said that the compensatory duty should be based, not on the scoured content of grease wool, but on the duty on scoured wool which in a bill with a duty of 18 cents on the scoured content of grease wool would be at least 19 cents. In this article, therefore, the benefit of the doubt on this point has been resolved in favor of the manufacturer, and the compensatory duty has been based on the recommendations of the board for a raw wool duty of 19 cents.<sup>23</sup> Columns 5, 6, and 7 are columns 2, 3, and 4 expressed in percentages. Here it is found, as in considering the top duties of these bills, that the duties are much heavier on the low-grade yarns than on the higher. This defect can be corrected by properly grading the specific part of the duties.

Considering all the bills studied, the method of levying the duties on yarns in the Penrose bill is the most desirable from the point of view of protection.

### Yarns —

#### The Tariff Board says —

are comparatively well standardized and their cost varies in a certain regular relation to the fineness or count of the yarn. It is a simple matter, then, to adopt the specific system in this particular case. A duty can be assessed on No. 1 yarn and be made to increase by a certain proportion with each additional count of yarn.<sup>24</sup>

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<sup>23</sup> *Ibid.*, p. 626.

<sup>24</sup> *Ibid.*, p. 710.

## TARIFF BOARD AND WOOL LEGISLATION

These suggestions were followed by the framers of the Penrose bill. By referring to Table 9 it will be observed that a rate of 41 or 42 cents per pound on 2/60s is approximately in accord with the findings of the Tariff Board. This rate should be graded up and down, according to the count of the yarn.

An ad valorem rate on yarns is, from a protective point of view, inadvisable, but if it is adopted the rate should be at least 50 per cent on the basis of 35 per cent wool. It was evident from Table 8 that the 45 per cent given by the La Follette bill was scarcely ample to cover the minimum difference in conversion cost.

### WOOLEN AND WORSTED FABRICS

When the question of the duty on woollen and worsted fabrics is taken up, a field is entered upon vastly more complicated than that of tops and yarns. In investigating the cost of weaving the Tariff Board chose 55 samples of woollen and worsted fabrics, which included samples of all the standard varieties used for men's and women's wear. The board, in the first place, obtained the actual weaving cost of each fabric from the mill originally making it; in the next place, it submitted the various samples to foreign and domestic manufacturers making similar goods, and obtained from them, after their books had been studied by the board's agents, the cost at which they could make the fabrics. The figures were checked and compared and the record of each sample written up.<sup>25</sup> The board contented itself with giving the costs of converting yarn into cloth, and it made no effort to report specifically on the conversion costs of the tops and yarns used in the making of the fabrics. Nor did it attempt to connect its investigation of weaving costs with its costs of combing and spinning. An effort will here be made to do this. In Table 10 the difference in conversion costs between this country and abroad for the samples reported on by the Tariff Board is calculated from the raw wool through combing and spinning to the finished fabrics. Those samples on which no English costs were obtained are not included. In this table the classification of the Hill bill has been adopted, not necessarily because it is the last word on classification, but because it was the one most discussed in the sixty-fifth Congress.

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<sup>25</sup> *Ibid.*, pp. 651-690.

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TABLE 10.—THE AD VALOREM DUTY NECESSARY TO COVER THE DIFFERENCE IN CONVERSION COSTS FOR THE SAMPLES REPORTED ON PAGES 651 TO 690 OF THE TARIFF BOARD'S REPORT ON SCHEDULE K

Sample No.	1	2	3	4	5	6	7
	Name of cloth	Difference in conversion cost for top in 1 pound of cloth	Difference in conversion cost for yarn in 1 pound of cloth	Difference in weaving conversion cost per pound of cloth	Total difference in conversion cost of 1 pound of cloth (3+3+4)	Price (English total cost plus 17½ per cent) per pound	Ad valorem rate necessary to cover difference in conversion cost (5+6)
	Weight (ounces per yard)						Per cent
4	Valued at not more than 40 cents per pound: Women's cotton warp sacking.....	8.5	\$0.0414	\$0.077	\$0.1184	\$0.3971	29.82
13	Men's fancy woolen suit- ing.....	16.0	.0418	.088	.1295	.3905	33.16
14	Valued at more than 40 and not more than 60 cents per pound: Fancy woolen overcoating Do.....	18.5	.0477	.087	.1347	.4116	32.72
21	Men's fancy woolen suit- ing.....	16.0	.0396	.128	.1676	.5166	33.45
28	Valued at more than 60 and not more than 80 cents per pound: Worsted Panama.....	13.0	.0570	.180	.2419	.5900	41.00
1	Fancy cotton worsted.....	4.2	.0698	.152	.2656	.6872	38.65
2	Brillantine.....	6.7	.0327	.099	.1394	.6285	22.18
3	Women's homespun.....	3.7	.0290	.174	.2526	.7715	32.74
8	Woolen tweed.....	8.2	.0696	.131	.2006	.7774	26.80
9	Women's worsted serge.....	12.2	.0007	.100	.1706	.6368	26.79
12	Women's worsted cheviot.....	9.0	.0438	.161	.2763	.7209	38.33
15	Covert.....	10.0	.0431	.168	.2817	.7391	41.01
16	Men's blue serge.....	11.6	.0431	.141	.2177	.7731	38.16
22		14.0	.0646	.117	.2260	.6694	34.12

# TARIFF BOARD AND WOOL LEGISLATION

TABLE 10.—THE AD VALOREM DUTY NECESSARY TO COVER THE DIFFERENCE IN CONVERSION COSTS FOR THE SAMPLES REPORTED ON PAGES 651 TO 690 OF THE TARIFF BOARD'S REPORT ON SCHEDULE K —  
Continued

Sample No.	Name of cloth	1 Weight (ounces per yard)	2 Difference in con- version cost for top in 1 pound of cloth	3 Difference in con- version cost for yarn in 1 pound of cloth	4 Difference in weaving conversion cost per pound of cloth	5 Total difference in conversion cost of 1 pound of cloth (2+3+4)	6 Price (English total cost plus 17½ per cent) per pound	7 Ad valorem rate necessary to cover difference in conversion cost (\$+6)
	Valued at more than 60 and not more than 80 cents per pound — Continued:							
23	Men's blue worsted serge.	12.0	\$ .0410	\$ .0623	\$ .175	\$ .2783	\$ .7364	37.79
25	Fancy cassimere.	16.0	.....	.0542	.131	.1852	.6423	28.83
27	Women's chevrot.	13.0	.0441	.0402	.179	.2633	.6883	38.23
32	Fancy fine woollen.	12.0	.....	.0765	.253	.3295	.7844	42.01
34	Fancy worsted suiting.	11.5	.0420	.0728	.240	.3548	.7701	46.07
41	Black thibet.	17.0	.....	.0366	.146	.1826	.7752	23.56
	Valued at more than 80 cents and not more than \$1 per pound:							
10	Women's all-wool blue serge.	7.5	.0488	.0777	.203	.3295	.8467	38.92
17	Women's all-wool sackings	10.5	.....	.0623	.190	.2223	.8356	26.60
24	Fancy cotton-warp worsted.	13.0	.0220	.0599	.189	.2008	.9496	21.15
26	Do.	11.2	.0204	.0653	.200	.2527	.8687	33.70
30	Fancy worsted.	14.0	.0500	.0664	.169	.2854	.9414	30.32
32	Covert wool.	14.0	.....	.1000	.177	.2770	.9176	30.18
37	Men's black clay worsted	16.0	.0484	.0671	.156	.2716	.9895	27.44
44	Women overcoating.	21.0	.....	.0803	.118	.1983	.8267	24.02
46	Uniform.	21.0	.....	.0640	.152	.2100	.9844	21.94

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TABLE 10.—THE AD VALOREM DUTY NECESSARY TO COVER THE DIFFERENCE IN CONVERSION COSTS FOR THE SAMPLES REPORTED ON PAGES 631 TO 690 OF THE TARIFF BOARD'S REPORT ON SCHEDULE K —  
Continued

Sample No.	Name of cloth	1 Weight (ounces per yard)	2 Difference in con- version cost for top in 1 pound of cloth	3 Difference in con- version cost for yarn in 1 pound of cloth	4 Difference in weaving conversion cost per pound of cloth	5 Total difference in cost of 1 pound of cloth (3+4)	6 Price (English total cost plus 17 1/2 per cent) per pound	7 Ad valorem rate necessary to cover difference in conversion cost (5+6)
	Valued at more than \$1 and not more than \$1.50 per pound:							
5	All-wool batiste.....	2.6	\$ .0496	\$ .1350	\$ .384	\$ .5086	\$ 1.4363	39.59
6	All-wool batiste.....	4.7	.0468	.1214	.238	.4092	1.1849	35.03
7	All-wool batiste.....	3.7	.0476	.1212	.305	.4738	1.3038	36.34
20	Women's all-wool broad- cloth.....	9.3	.....	.1100	.194	.3040	1.0181	29.86
36	Men's blue serge.....	18.0	.0523	.0757	.130	.2583	1.1850	32.50
38	Fancy worsted suiting.....	11.5	.0460	.0750	.271	.3920	1.2140	32.30
42	Men's lightweight blue serge.....	13.0	.0488	.1111	.258	.4179	1.2293	34.00
45	Men's fancy half worsted suiting.....	13.2	.0216	.1124	.246	.3800	1.3848	28.05
47	Black unfinished worsted.....	13.0	.0492	.1007	.237	.3809	1.1771	33.73
48	Men's unfinished worsted.....	14.0	.0483	.1150	.258	.3918	1.0908	35.62
49	Men's serge.....	13.0	.0488	.0972	.264	.4100	1.1080	35.62
	Valued at more than \$1.50 per pound:							
52	Silt-mixed worsted.....	14.2	.0500	.1802	.444	.6542	1.6642	39.81
53	Men's unfinished worsted.....	14.5	.0484	.2386	.301	.6783	1.6000	42.30



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The unit of measure in Table 10 is 1 pound of cloth. Before the difference in conversion costs of the tops and yarn entering into a pound of cloth could be computed it was necessary to determine how much waste there is in combing and spinning. It should be clear that, because of the wastes in these processes, it requires more than a pound of yarn to make a pound of cloth and more than a pound of top to make a pound of worsted yarn. The conversion cost of the material wasted, however, must be considered in calculating the total conversion cost of a fabric. At best the method by which the figures in Table 10 were computed, is complex. The best way to make it clear is to take one sample and follow it through all the computations.

Sample No. 22 is a men's blue serge weighing 14 ounces to the yard. In making the yarn required to make 1 pound of this fabric approximately 1.24 pounds of top were consumed. The difference in the conversion costs between this country and England of the top in this fabric is 3.5 cents per pound, and the corresponding cost for 1.24 pounds is 4.34 cents. By this means all the figures in column 2 were computed.

In making 1 pound of sample No. 22 approximately 1.13 pounds of worsted yarns were used—0.60 of a pound were used in the warp and 0.53 of a pound were used in filling; 2/24s were used in the warp. According to the Tariff Board the difference in conversion cost between this country and England of 2/24s is 6.31 cents per pound, and the corresponding figure for 0.60 of a pound would be 3.79 cents; 1/12s were used in the filling. While no cost was given for 1/12s by the Tariff Board, a fair estimate on the basis of the costs given would make the difference in conversion costs between this country and abroad for 1 pound of this yarn 5.04 cents, and the corresponding cost for 0.53 of a pound would be 2.67 cents. Adding 3.79 cents and 2.67 cents the result is 6.46 cents—the difference in conversion costs between this country and abroad of making the yarn in 1 pound of sample No. 22. This method of calculating the yarn costs was followed in the case of each sample, and the results are to be found in column 3.

The American weaving cost for sample No. 22 was 22.2 cents per yard and the English weaving cost was 11.93 cents<sup>26</sup>

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<sup>26</sup> *Ibid.*, p. 665.

## COMMERCIAL POLICY

per yard. The latter cost was subtracted from the former in order to obtain the difference in the weaving conversion costs per yard between this country and abroad. This difference per yard was then reduced to the corresponding difference per pound, or 11.7 cents. In this manner each of the costs in column 4 of Table 10 was computed.

Column 5 is the sum of columns 2, 3, and 4 and shows the total difference in cents per pound between this country and England of converting wool through all the processes into finished cloth. For sample No. 22 this cost is 22.5 cents.

It next became necessary to determine the price on which the duty would be assessed if the fabric in question were imported. Under the present administration of the customs this price would, of course, be the foreign price. The Tariff Board did not give prices for the samples under discussion but it did give the total costs. Upon the basis of the total cost the price is computed. Recurring to sample No. 22, the total English cost, i. e., both material and conversion costs, for this sample was 49.11 cents per yard.<sup>26</sup> This total cost per yard was reduced to the total cost per pound, and to it was added 17½ per cent of itself in order to determine a figure on which the duty should be assessed. This method is employed by the customs officials when goods are billed to this country at cost, and 17½ per cent is a fair allowance for distribution expenses and profit. For sample No. 22 the figure on which the duty would be assessed is 65.94 cents per pound. This is the way column 6 was made up.

Column 7 is the real object of all the computations in Table 10. It is the per cent which column 5 is of column 6; in other words, it is the total difference in conversion costs between this country and England expressed in percentage. If, then, a duty were being levied just adequate to offset the disadvantages of the American manufacturer arising from the difference in conversion costs alone between here and England of sample No. 22, the ad valorem rate would be 34.12 per cent. This duty, of course, does not provide for compensation on account of a duty on raw wool.

There are certain other observations to be made concerning the method by which Table 10 was constructed. No effort was made to work out the top costs in column 2 according to the

<sup>26</sup> *Ibid*, p. 665.

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particular qualities of top in the warp and weft. For the purpose of avoiding confusion and possible inaccuracy, the difference in the conversion costs between this country and England of 1 pound of tops of the lower qualities was taken at 3.5 cents and of 1 pound of the higher qualities at 4 cents. These costs correspond approximately to the results of the discussion of tops above. Such variations as occur in column 2 are due to variations in the amount of top used in making 1 pound of each fabric. Whenever the spaces are blank in column 2, the fabrics considered are woolens, as distinguished from worsteds, and no tops were used in their manufacture. Whenever the fabric considered was in part worsted, only the actual tops used were considered.

In some cases in the construction of Table 10 it was necessary to make use of information generally familiar to manufacturers but not found in the report of the Tariff Board. This was true in proportioning the material in a pound of cloth between the warp and weft and in some cases in estimating the amount of loss of material in the various processes. In obtaining the costs of all the various kinds of yarns used in the construction of the sample under discussion, several sources of information had to be resorted to. The costs of producing worsted yarns were taken from the report on Schedule K, and in those cases where costs were not given for particular counts the costs of these were estimated on the basis of the costs given. The costs of cotton yarns (when a part of a sample) were taken from the Tariff Board's report on Schedule I.<sup>27</sup> No costs of carded woolen yarns are given by the Tariff Board, but it is generally recognized in the trade that the conversion cost of these yarns in the United States is one-half cent a cut, and in the absence of anything better this estimate has been used here.

These detailed explanations of Table 10 have been made for the purpose of being frank with the reader. Differences of opinion unavoidably arise in a subject as complicated as the one under consideration. There is no desire to force any conclusions on the reader and therefore the methods of computation are set forth plainly and the result left to the judgment of him who reads.

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<sup>27</sup> H. Doc. No. 643, 62d Cong., 2d sess.

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TABLE 11.—THE DUTIES ON WOOLEN AND WORSTED FABRICS UNDER THE HILL BILL (H. R. 22262)  
COMPARED WITH THE FINDINGS OF THE TARIFF BOARD

Sample No.	Classification	Weight in ounces per yard	Price per pound	Per cent of wool in cloth	Compensation based on rate of 18 cents per pound of wool content	Ad valorem under Hillbill	Ad valorem	Total duty under Hillbill	Total duty under Hillbill	Protection and compensation required according to Tariff Board		
										Compensatory duty	Protective duty	Total duty
1	2	3	4	5	6	7	8	9	10	11	12	13
4	Valued at not more than 40 cents per pound.	8.5	\$0.3971	41.7	\$0.1043	30	\$0.1191	\$0.2234	56.26	26.27	29.82	56.09
13	Valued at more than 40 cents and not more than 60 cents per pound.	16.0	3905	41.1	1028	30	1173	2200	56.34	26.33	33.16	59.49
14		18.5	4116	100.0	2600	35	1441	4041	98.18	63.17	32.45	95.89
21		16.0	5166	100.0	2600	35	1808	4408	85.83	60.33	32.45	82.78
28		13.0	5000	100.0	2600	35	2065	4665	79.07	44.07	41.00	85.07
1		4.3	6872	100.0	2600	40	2749	5349	77.84	37.83	38.65	76.48
2		6.7	6285	17.2	0447	40	2514	2961	47.11	7.11	22.18	29.29
3		8.7	7715	68.7	1786	40	3086	4873	63.15	23.15	32.74	55.89
8		12.2	6368	100.0	2600	40	3110	5710	73.45	33.44	26.80	59.24
9		9.0	7209	100.0	2600	40	2884	5484	76.07	36.07	38.33	67.63
12		10.0	6869	100.0	2600	40	2748	5348	77.86	37.85	41.01	78.86
15	Valued at more than 60 cents and not more than 80 cents per pound.	11.8	7731	100.0	2600	40	3092	5692	73.63	33.63	28.16	71.79
16		14.0	6594	100.0	2600	40	2638	5238	79.44	39.43	34.12	73.55
22		13.0	7364	100.0	2600	40	2946	5546	75.81	35.81	37.79	73.10
23		12.0	6423	100.0	2600	40	2509	5109	80.48	40.48	28.83	69.31
25		16.0	7844	100.0	2600	40	3755	7355	77.74	37.74	38.23	75.98
27		13.0	6838	100.0	2600	40	3138	5738	73.15	33.15	42.01	75.16
32		12.0	7844	100.0	2600	40	3080	5680	73.76	33.76	46.07	79.83
34		11.5	7701	100.0	2600	40	3101	5601	72.25	32.25	43.56	57.10
41		17.0	7752	100.0	2600	40						

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TABLE 11.—THE DUTIES ON WOOLEN AND WORSTED FABRICS UNDER THE HILL BILL (H. R. 22262) COMPARED WITH THE FINDINGS OF THE TARIFF BOARD—Continued

Sample No.	Classification	Weight in ounces per yard	Price per pound	Per cent of wool in cloth	Compensatory duty based on rate of 18 cents on content of wool	Ad valorem rate under Hillbill	Ad valorem duty	Total duty under Hillbill	Total duty under Hillbill	Protection and compensation required according to Tariff Board		
										Con-	Pro-	Total
		1	2	3	4	5	6	7	8	pen-	tec-	duty
						Per cent			Per cent	satory	tive	11
									Per cent	duty	duty	
10		7.5	\$0.8467	100.0	\$0.2600	45	\$0.3810	\$0.6410	75.71	30.71	38.92	69.63
17		10.5	.8356	100.0	.2600	45	.3760	.6360	76.11	31.13	26.60	57.72
24		13.0	.9496	52.3	.1360	45	.4273	.5932	59.32	14.32	26.60	57.72
26		11.2	.8687	48.1	.1261	45	.3909	.5160	59.40	14.40	33.70	48.10
30		14.0	.9414	100.0	.2600	45	.4236	.6836	72.62	27.62	30.32	57.94
33		14.0	.9176	100.0	.2600	45	.4129	.6729	73.33	28.33	30.18	58.51
37		16.0	.9895	100.0	.2600	45	.4453	.7053	71.28	26.28	27.44	53.72
44		24.0	.8257	100.0	.2600	45	.3716	.6316	76.49	31.49	24.02	55.51
46		21.0	.9844	100.0	.2600	45	.4430	.7030	71.41	26.41	21.94	48.35
5		2.6	1.4362	100.0	.2600	50	.7181	.9781	68.10	18.10	39.59	57.69
6		4.7	1.1439	100.0	.2600	50	.5745	.8345	72.63	22.63	35.62	58.25
7		3.7	1.3038	100.0	.2600	50	.6519	.9119	69.94	19.94	36.34	56.28
20		9.3	1.0181	100.0	.2600	50	.5091	.7691	75.54	25.54	29.86	55.40
36		18.0	1.1489	100.0	.2600	50	.5745	.8345	72.63	22.63	32.29	55.13
38		11.5	1.2140	100.0	.2600	50	.6070	.8670	71.42	21.42	34.00	55.42
42		13.0	1.2293	100.0	.2600	50	.6147	.8747	71.15	21.15	34.00	55.15
45		13.2	1.3548	100.0	.2600	50	.6774	.9374	69.19	19.19	28.06	47.24
47		15.0	1.1471	100.0	.2600	50	.5736	.8336	72.67	22.67	33.73	56.40
48		14.0	1.0968	100.0	.2600	50	.5499	.8099	73.64	23.64	35.62	59.26
49		13.0	1.1050	100.0	.2600	50	.5525	.8125	73.53	23.53	37.10	60.63
52		14.2	1.6642	100.0	.2600	55	.9153	1.1753	70.62	16.62	39.31	54.93
53		14.5	1.6700	100.0	.1600	55	.8800	1.1400	71.25	16.25	42.39	53.64

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The Hill bill (known officially as the Payne bill), prepared by Congressman Hill of Connecticut, was a careful attempt to frame a wool bill based on the findings of the Tariff Board. It received the unanimous support of the Republican minority in the House, but was repudiated by the Republican senators. Table 11 shows the duties on woollen and worsted fabrics under the Hill bill and compares them with the compensation and protection required by the Tariff Board report.

The Hill bill provides that the compensatory duty on fabrics shall be levied only upon the "wool contained therein." This idea was not recommended by the Tariff Board, but it was generally in favor among the advocates of lower duties. It only in part cures one of the evils of the present law — that of excessive duties on cheap fabrics — since shoddy goods still pay the whole of the compensatory duty. A graded specific duty would without doubt be more equitable. Since it was adopted, however, by Congressman Hill, it is taken into consideration in Table 11. Column 3 shows six fabrics containing less than 100 per cent of wool, and the compensatory duty in column 4 is calculated only on the actual wool content. Congressman Hill followed the recommendations of the Tariff Board both as to the amount of the compensatory duty<sup>28</sup> and as to grading the *ad valorem* duties on cloth.<sup>29</sup> In Table 10 the total duty in cents under the Hill bill is calculated and then reduced to a percentage (column 8).

Columns 9, 10, and 11 in Table 11 show the compensation and protection required according to the findings of the Tariff Board. In finding the percentages in column 9 the Hill compensatory duties (column 4) were assumed to correspond with the recommendations of the Tariff Board, which is true with the exceptions of the six fabrics containing cotton. Column 10 is taken from column 7 of Table 10. When the percentages in column 8 are compared with those in column 11, it will be seen that the duties under the Hill bill are substantially in harmony with the findings of the Tariff Board.

The conservative Republicans of the Senate knew, as did anyone familiar with the situation, that a revision of Schedule K proposed by the majority of the Finance Committee had not the slightest chance of passage. Certain conservative Republi-

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<sup>28</sup> Report of the Tariff Board on Schedule K, p. 626.

<sup>29</sup> *Ibid.*, p. 710.

# TARIFF BOARD AND WOOL LEGISLATION

TABLE 12. — THE DUTIES ON WOOLEN AND WORSTED FABRICS UNDER THE PENROSE BILL COMPARED WITH THE FINDINGS OF THE TARIFF BOARD

Sample No.	Classification	1 Weight in ounces per yard	2 Price per pound	3 Com- pensatory duty in bill per pound	4 Ad valorem rate in bill per cent	5 Ad valorem duty in cents	6 Total duty in cents under Penrose bill	7 Total duty in per cent under Penrose bill	8 Total duty in per cent required by Tariff Board
4	Valued at more than 30 cents	8.5	\$0.3971	\$0.20	35	\$0.1390	\$0.3390	85.37	56.09
13	and not more than 40 cents.	16.0	.3905	.20	35	.1367	.3367	86.22	59.49
14	per pound.	18.5	.4116	.24	45	.1852	.4252	103.30	95.99
	Valued at more than 40 cents								
	and not more than 50 cents								
21	per pound.	16.0	.5166	.28	45	.2325	.5125	99.21	82.75
28	Valued at more than 50 cents	13.0	.5800	.28	45	.2655	.5455	92.46	85.07
	and not more than 60 cents								
	per pound.								
1	Valued at more than 60 cents	4.2	.6872	.32	50	.3436	.6636	96.57	76.48
2	and not more than 70 cents	6.7	.6285	.32	50	.3143	.6343	100.92	29.29
8	per pound.	8.2	.7774	.32	50	.3887	.7087	91.16	59.24
9	Valued at more than 70 cents	12.2	.6368	.32	50	.3184	.6384	100.25	67.62
12	and not more than 80 cents	9.0	.7209	.32	50	.3605	.6805	94.40	74.40
15	per pound.	10.0	.6869	.32	50	.3465	.6635	96.59	78.86
16	Valued at more than 80 cents	11.6	.7731	.32	50	.3866	.7066	91.40	61.79
22	and not more than 90 cents	14.0	.6594	.32	50	.3297	.6497	98.53	73.55
23	per pound.	12.0	.7364	.32	50	.3682	.6882	93.45	73.10
25	Valued at more than 90 cents	16.0	.6423	.32	50	.3212	.6412	99.83	69.31
27	and not more than 100 cents	13.0	.6888	.32	50	.3444	.6644	96.46	75.08
32	per pound.	12.0	.7844	.32	50	.3922	.7122	90.80	79.83
34	Valued at more than 100 cents	11.5	.7701	.32	50	.3851	.7051	91.56	79.83
41	and not more than 110 cents	17.0	.7752	.32	50	.3876	.7076	91.28	57.10

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TABLE 12. — THE DUTIES ON WOOLEN AND WORSTED FABRICS UNDER THE PENROSE BILL COMPARED WITH THE FINDINGS OF THE TARIFF BOARD — *Continued*

Sample No.	Classification	1 Weight in ounces per yard	2 Price per pound	3 Com- pensatory duty in bill per pound	4 Ad valorem rate in bill per cent	5 Ad valorem duty in cents	6 Total duty in cents under Penrose bill	7 Total duty in per cent under Penrose bill	8 Total duty in per cent required by Tariff Board
10	Valued at more than 80 cents per pound.....	7.5	\$0.8467	\$0.35	55	\$0.4657	\$0.3157	96.34	69.63
17		10.5	.8356	.35	55	.5596	.8096	96.89	57.72
24		13.0	.9496	.35	55	.5223	.8723	91.86	35.47
26		11.2	.8687	.35	55	.4778	.8278	95.29	48.10
30		14.0	.9414	.35	55	.5178	.8678	92.18	57.94
33		14.0	.9176	.35	55	.5047	.8547	93.15	58.61
37		16.0	.9895	.35	55	.5442	.8642	90.37	53.72
44		24.0	.8257	.35	55	.4541	.8041	97.38	55.1
46		21.0	.9844	.35	55	.5414	.8914	90.55	48.35
20		9.3	1.0181	.35	55	.5600	.9100	89.38	55.40
36		18.0	1.1489	.35	55	.6319	.9819	85.46	45.13
38		11.5	1.2140	.35	55	.6877	1.0177	83.83	53.71
42		13.0	1.2293	.35	55	.7451	1.2261	99.74	55.15
45		13.2	1.3548	.35	55	.7451	1.0951	80.83	47.24
47		15.0	1.1471	.35	55	.6309	.9809	85.61	56.40
48		14.0	1.0998	.35	55	.6049	.9549	86.82	59.26
49		13.0	1.1050	.35	55	.6078	.9578	86.68	60.63
52		14.2	1.6642	.35	55	.9153	1.2653	76.03	54.93
53		14.5	1.6000	.35	55	.8800	1.2300	76.88	58.64



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cans, however, desired to put themselves on record, and the Penrose bill was the result. In this bill a new classification of fabrics was adopted; dress goods were, as in the present law, put in a separate paragraph; and the compensatory duty was graded. Table 12 is a study of the Penrose bill as Table 11 was a study of the Hill bill, and, coming after the discussion of the latter, the former will be clear with a very few comments. Column 7 shows the total duty on each sample under the rates of the Penrose bill and, if compared with the findings of the Tariff Board in column 8, it will be evident that the rates in the bill are excessive.

When attention is turned away from the Penrose and Hill bills, in which the cloth duties are compound duties, to the La Follette, Underwood, and Compromise bills, in which the cloth duties are ad valorem duties, a new method of treatment must be adopted. The rates on raw wool and cloth in the La Follette bill were 35 per cent and 55 per cent, respectively; in the Underwood bill 20 per cent and 40 per cent, respectively; and in the Compromise bill 29 per cent and 49 per cent, respectively. Table 13 is for the purpose of showing the net protection in per cent given to cloth by each of these bills and to compare this net protection with the protection required, according to the Tariff Board, to offset the difference in conversion cost between this country and England.

Column 2 in Table 13 gives the per cent the material cost in each fabric is of the total cost, and is used as a basis for computing the compensatory duty under the respective bills. The net protection given by each bill is then determined by subtracting the compensatory duty in per cent from the actual duty levied on cloth by each bill, and the result is compared with the needed ad valorem protection according to the computations which were made in Table 10. The method by which the table was constructed will be made clearer by an example. Of the total cost of sample No. 22, 55 per cent is material cost. The rate on raw wool in the Underwood bill is 20 per cent, and 20 per cent of 55 per cent is 11 per cent, the proportion of the Underwood duty on cloth required to compensate the manufacturer for the rise in price of his raw material due to the 20 per cent duty on raw wool. The 11 per cent is then subtracted from 40 per cent (the Underwood duty on

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TABLE 13.—RATES OF THE UNDERWOOD, LA FOLLETTE, AND COMPROMISE BILLS APPLIED TO SAMPLES IN THE TARIFF BOARD REPORT ON PP. 651-690 AND COMPARED WITH TARIFF BOARD FINDINGS

Sample No.	Name of Cloth	Price on which duty is assessed per yard		Cost of raw material, per cent		Underwood bill (per cent)			La Follette bill (per cent)			Compromise bill (per cent)		
		1	2	3	4	5	Compensatory duty	Protective duty	Compensatory duty	Protective duty	Needed ad valorem to cover conversion cost	Compensatory duty	Protective duty	Needed ad valorem to cover conversion cost
1	Worsted Panama.....	\$0.18	53	11	29	39	11	29	18	37	39	15	34	39
2	All-wool batiste.....	.23	56	11	29	40	11	29	20	35	40	16	33	40
3	All-wool Panama.....	.34	61	12	28	36	12	28	31	34	36	18	31	36
4	All-wool batiste.....	.30	60	12	28	36	12	28	21	34	36	17	32	36
5	Women's homespun.....	.40	70	14	26	26	14	26	24	31	26	20	29	27
6	Woolen tweed.....	.49	70	14	26	27	14	26	25	30	27	20	29	27
7	Women's all-wool blue serge.....	.40	60	12	28	39	12	28	21	35	39	17	32	39
8	Women's worsted serge.....	.41	67	11	29	38	11	29	20	34	38	17	32	38
9	Fancy woolen overcoating.....	.48	67	13	27	33	13	27	24	31	35	19	30	33
10	Women's all-wool broadcloth.....	.43	55	13	27	41	13	27	19	36	41	16	33	41
11	Covert.....	.56	68	14	26	28	14	26	23	32	28	19	30	28
12	Women's all-wool sacking.....	.55	68	14	26	27	14	26	24	31	27	20	29	27
13	Women's all-wool broadcloth.....	.59	67	13	27	30	13	27	23	32	30	19	30	30
14	Fancy woolen overcoating.....	.53	71	14	26	32	14	26	25	30	32	21	28	32
15	Men's blue serge.....	.53	55	13	27	34	13	27	19	36	34	16	33	34
16	Men's blue worsted serge.....	.58	60	12	28	38	12	28	21	34	38	17	32	38
17	Fancy casimere.....	.64	69	12	28	29	12	28	21	34	31	20	29	29
18	Women's cheviot.....	.56	62	12	28	34	12	28	22	33	38	18	31	38

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TABLE 13. — RATES OF THE UNDERWOOD, LA FOLLETTE, AND COMPROMISE BILLS APPLIED TO SAMPLES IN THE TARIFF BOARD REPORT ON PP. 651-690 AND COMPARED WITH TARIFF BOARD FINDINGS — *Continued*

Sample No.	Name of Cloth	Price on which duty is assessed per yard	Cost of raw material, per cent	Underwood bill (per cent)			La Follette bill (per cent)			Compromise bill (per cent)		
				Compensatory duty	Protective duty	Needed ad valorem to cover conversion cost	Compensatory duty	Protective duty	Needed ad valorem to cover conversion cost	Compensatory duty	Protective duty	Needed ad valorem to cover conversion cost
28	Men's fancy woolen suiting.....	\$0.45	63	13	27	41	22	33	41	18	31	41
30	Fancy worsted.....	.82	67	13	27	30	24	31	30	19	30	30
32	Fancy fine woolen.....	.59	67	13	27	42	23	32	42	19	30	42
33	Covert wool.....	.80	67	13	27	30	24	31	30	20	29	30
34	Fancy worsted suiting.....	.55	55	11	29	46	19	36	46	16	33	46
36	Men's blue serge.....	1.29	72	14	26	23	25	30	23	21	28	23
37	Men's black clay worsted.....	.99	68	14	26	32	24	31	37	20	28	32
38	Fancy worsted suiting.....	.87	72	14	26	32	25	30	32	21	28	32
41	Black thibet.....	.82	65	13	27	34	23	32	34	19	30	34
42	Men's light-weight blue serge.....	1.00	66	13	27	34	23	32	34	19	30	34
44	Woolen overcoating.....	1.24	71	14	26	24	25	30	24	20	28	24
45	Men's fancy half-worsted suiting.....	1.12	70	14	26	28	25	30	28	21	29	28
46	Uniform.....	1.29	75	15	25	22	26	32	22	22	27	22
47	Black unfinished worsted.....	1.08	66	13	27	34	23	32	34	19	30	34
48	Men's unfinished worsted.....	.96	58	12	28	36	20	33	36	17	32	36
49	Men's serge.....	.90	63	13	27	37	22	33	37	18	31	37
52	Silk mixed worsted.....	1.48	65	13	27	39	20	33	39	19	30	39
53	Men's unfinished worsted.....	1.45	51	10	30	42	18	37	42	15	34	42

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cloth) to obtain the net protection under this bill (column 4). The same method was pursued in making the computations for the La Follette and Compromise bills. If a flat ad valorem rate on cloth be admitted desirable, Table 13 seems to show that the La Follette rate of 55 per cent with 35 per cent on raw wool is substantially in harmony with the findings of the Tariff Board, although from a protection point of view 60 per cent would be more nearly correct. The other two bills are clearly too low.

It is stated in good faith by men intimately acquainted with wool manufactures in the United States that the industry can not exist with anything less than a prohibitive duty. If this proposition be accepted, the rates on cloth in the Penrose bill can be defended; it is also true that a different method of calculation would have to be pursued in interpreting the statistics of the Tariff Board. It was assumed at the beginning of this article, however, that a competitive rather than a prohibitive tariff was to be framed and that the rates desired were simply to equalize competitive conditions for the American manufacturers on the basis of the existing economic organization. It is believed that the general level of rates on cloth in the Hill bill is defensible from this standpoint. The method of levying the compensatory duty in the Penrose bill is more commendable than that of the Hill bill. A carefully graded specific compensatory duty would remove the excessive duty on the cheaper fabrics and still preserve the desirable features from the protection point of view of specific duties.

Much useless debate would be prevented if men would consider their tariff theories more carefully. It is useless for a protectionist Republican and a tariff-for-revenue Democrat to debate the desirability of the rates in a particular bill; they should debate premises, not conclusions. The conclusions of this article, therefore, should be judged in the light of the premises laid down at the beginning. No one of the bills considered is desirable from all points of view. The Underwood bill may be desirable from the standpoint of the Democrats but undesirable from the standpoint of the protectionist. And so with each one of the bills. This point at least should be clear from this discussion.

Public men and economists have not sufficiently appreciated the services of the Tariff Board. These services were ob-

## TARIFF BOARD AND WOOL LEGISLATION

secured by political animosities, aggravated by attacks made upon the board for personal and party reasons. He who wishes to pick flaws in the Tariff Board's report on Schedule K can do so with ease. Viewing its work constructively, however, it may be fairly said that the board did more for an honest, scientific revision than all the committee hearings and investigations which preceded it. However unsatisfactory its work may be in the eyes of some of its critics, the fact remains that its work is infinitely more satisfactory to the impartial observer than the work of the committees of Congress. Its faults are chiefly those of omission. It came to its work without a precedent in this country or abroad to guide it, and every step in the work presented difficult problems. When the time comes, as soon it will, for Congress to establish a permanent tariff commission, this commission will take up the work where the Tariff Board left it, and perhaps only then will be realized the worth of the public service of the members of the Tariff Board.

## APPENDIX VI

### COTTON CONVERSION COSTS AND TARIFF RATES

The following table is taken from an address of Senator Robert M. La Follette made in support of his substitute bill revising the cotton-tariff schedule during the tariff debate of 1913 and printed in the *Congressional Record*, Volume 50, Part 5, 63d Congress, 1st Session, September 9, 1913, p. 4591 *et seq.* The costs contained in the table are taken from the Taft Tariff Board report on "Cotton Manufactures," House of Representatives Document No. 643, 62d Congress, 2d Session (1912), p. 442 *et seq.*

Senator La Follette in introducing the table explained its structure as follows:

Mr. President, I submit another table based on the Tariff Board's samples. I have before me the cotton textile samples, showing the actual cloth, upon which the Tariff Board based its investigation of 1912. They are, I think, exactly 100 in number. They are typical of the entire cotton industry of this country.

I have applied to these samples the Payne-Aldrich rates. I have had the same computations made upon the rates in the pending cotton schedule and in the substitute which I have offered.

This table gives the kind of cloth, the number of square yards to the pound, the kind of finish, the total American cost of conversion per square yard, the total English selling price per square yard, the duty per square yard under the Aldrich Act, the duty per square yard under the pending bill, and also the duty per square yard under the substitute which I have presented.

Mark you, Mr. President, this table shows the *total cost of conversion*. That means the total expense of making any one of these fabrics—converting them from the raw material as it comes to the factory into the finished product as it goes upon the market.

Now, the utmost that anyone contending for the principle of protection asks to-day is that the tariff shall measure the difference between the cost of production in this country and abroad; that is, the *difference* in the conversion cost.

I have not figured out in this table the difference in the conversion cost, but I have the total American conversion cost.

# COTTON COSTS AND TARIFF RATES

DUTIES ON THE TARIFF BOARD COTTON SAMPLES UNDER THE PAYNE-ALDRICH LAW, THE PENDING BILL, AND THE LA FOLLETTE SUBSTITUTE COMPARED WITH THE AMERICAN CONVERSION COST AS FOUND BY THE TARIFF BOARD

Sample No.	Kind of cloth	Square yards per pound	Kind of finish	Total American cost of conversion per square yard	Total English selling price per square yard	Duty per square yard under Payne-Aldrich Act	Duty per square yard under Senate bill		Duty per square yard under La Follette substitute	
							Per cent	Amount	Per cent	Amount
1	Duck.....	1.29	Unbleached.....	\$0.0129	\$0.2087	\$0.0800	7½	\$0.0157	5	\$0.0104
2	..do.....	1.57	..do.....	.0130	.1703	.0800	7½	.0128	5	.0085
3	Osnaburg.....	3.25	..do.....	.0193	.0784	.0225	7½	.0059	5	.0039
4	Heavy sheeting.....	3.125	..do.....	.0190	.0750	.0225	10	.0075	5	.0038
5	Sheeting.....	2.93	..do.....	.0190	.0814	.0225	10	.0081	5	.0041
6	Brown domestic.....	4.02	..do.....	.0207	.0668	.0200	12½	.0209	5	.0033
7	Brown drills.....	2.50	..do.....	.0192	.1092	.0438	10	.0109	5	.0055
8	Canton flannel.....	2.27	do.....	.0208	.1462	.0650	10	.0146	5	.0073
9	Chesee cloth or bunting.....	9.63	Bleached.....	.0193	.0547	.0225	15	.0085	15	.0094
10	Window holland.....	2.82	Filled, glazed, and bleached.....	.0162	.1159	.0532	.....	.....	25	.0290
11	Linen-finished suiting.....	3.22	Bleached.....	.0207	.0855	.0150	12½	.0107	5	.0043
12	Bleached sheeting.....	4.98	Bleached.....	.0235	.0592	.0300	15	.0089	5	.0030
13	Shirting.....	3.621	..do.....	.0197	.1123	.0350	15	.0168	5	.0056
14	Wide sheeting.....	3.96	..do.....	.0228	.0916	.0250	15	.0137	5	.0046
				.0242						

1 Cost estimated from mills manufacturing similar construction and does not include the cost of filling and glazing.

# COMMERCIAL POLICY

DUTIES ON THE TARIFF BOARD COTTON SAMPLES UNDER THE PAYNE-ALDRICH LAW, THE PENDING BILL, AND THE LA FOLLETTE SUBSTITUTE COMPARED WITH THE AMERICAN CONVERSION COST AS FOUND BY THE TARIFF BOARD — *Continued*

Sample No.	Kind of cloth	Square yards per pound	Kind of finish	Total American cost of conversion per square yard	Total English selling price per square yard	Duty per square yard under Payne-Aldrich Act	Duty per square yard under Senate bill		Duty per square yard under La Follette substitute	
							Per cent	Amount	Per cent	Amount
15	Long cloth.....	5.85	..do.....	{ \$.0198 .0229 }	{ \$.0610 .0721 }	\$0.0300	15	\$.0092	10	\$0.0061
16	English long cloth.....	5.97	..do.....	.0334	.0721	.0400	20	.0144	10	.0072
17	Nainsook.....	8.36	..do.....	.0302	.0727	.0425	22½	.0163	22½	.0164
18	India linen.....	10.76	..do.....	.0442	.0951	.0425	25	.0237	22½	.0214
19	Persian lawn.....	14.30	..do.....	.0529	.1008	.0425	27½	.0277	22½	.0225
20	..do.....	14.83	..do.....	.0432	.0793	.0375	27½	.0218	22½	.0179
21	Fancy white goods.....	8.17	..do.....	.0662	.1175	.0525	25	.0294	25	.0294
22	Check nainsook.....	4.44	..do.....	.0329	.0783	.0300	15	.0159	25	.0265
23	Dimit check.....	8.61	..do.....	.0317	.0783	.0375	22½	.0178	25	.0198
24	Pique or welt.....	3.46	..do.....	.0499	.1811	.0800	15	.0272	25	.0452
25	Fancy white goods.....	8.12	..do.....	.0894	.1608	.0900	25	.0402	25	.0402
26	Checked lawn.....	9.87	..do.....	.0376	.1120	.0425	25	.0280	25	.0280
27	Mercerized corded check.....	8.51	..do.....	.0615	.1375	.0825	25	.0344	25	.0335
28	Dotted swiss check.....	8.62	..do.....	.0940	.1625	.1000	25	.0408	25	.0406
29	Dotted swiss.....	10.15	..do.....	.0567	.1410	.0725	25	.0352	25	.0352
30	Curtain swiss or madras.....	11.60	..do.....	.0661	.0824	.0575	22½	.0185	25	.0206
31	Fancy or allover swiss.....	7.13	..do.....	.0413	.2013	.1325	25	.0603	25	.0603
32	Lappet dotted swiss.....	10.12	..do.....	.0429	.0918	.0575	22½	.0207	25	.0280
33	Mercerized jacquard or fancy white goods.....	5.53	Mercerized and bleached.....	.0719	.1516	.0750	20	.0374	30	.0455
34	Fancy white goods.....	8.47	Bleached.....	.0699	.1968	.1100	30	.0590	25	.0492



# COTTON COSTS AND TARIFF RATES

DUTIES ON THE TARIFF BOARD COTTON SAMPLES UNDER THE PAYNE-ALDRICH LAW, THE PENDING BILL, AND THE LA FOLLETTE SUBSTITUTE COMPARED WITH THE AMERICAN CONVERSION COST AS FOUND BY THE TARIFF BOARD — *Continued*

Sample No.	Kind of cloth	Square yards per pound	Kind of finish	Total American cost of conversion per square yard	Total English selling price per square yard	Duty per square yard under Payne-Aldrich Act		Duty per square yard under Senate bill		Duty per square yard under La Follette substitute	
						Per cent	Amount	Per cent	Amount	Per cent	Amount
35	Striped voile.....	7.26	Mercerized and bleached.	\$0.0494	\$0.1426		\$0.0625	25	\$0.0357	25	\$0.0357
36	Marquiette.....	15.59	do.....	.0410	.1653		.0900	27½	.0463	25	.0421
37	Striped marquiette.....	10.64	Bleached.....	.0387	.1805		.1100	20	.0361	25	.0451
38	Table damask.....	3.51	Bleached and shrunk.	.....	.1221		.0488	.....	.....	30	.0366
39	Cotton challie.....	7.19	Printed.....	.0308	.0882		.0325	15	.0147	10	.0098
40	Printed lawn.....	7.67	Bleached and printed.	.0331	.0677		.0325	15	.0102	15	.0202
41	Calico print.....	6.28	Printed and hot calendered.	.0239	.0756		.0425	15	.0113	10	.0076
42	do.....	5.76	Bleached and printed	.0312	.1121		.0375	15	.0168	10	.0112
43	do.....	5.40	Printed.....	.0273	.0878		.0375	15	.0147	10	.0098
44	Printed percale.....	5.82	do.....	.0264	.0737		.0375	15	.0111	10	.0074
45	Printed lawn.....	9.94	Bleached and printed	.0309	.0895		.0450	22½	.0156	22½	.0156
46	Printed organdy.....	10.61	do.....	.0435	.0865		.0450	25	.0216	22½	.0195
47	Printed batiste.....	9.65	do.....	.0377	.0872		.0500	25	.0218	23½	.0194
48	Printed lawn.....	10.67	Mercerized, bleached, and printed.	.0478	.1020		.0600	25	.0255	23½	.0230
				.0554							
				.0424							
				.0606							

# COMMERCIAL POLICY

DUTIES ON THE TARIFF BOARD COTTON SAMPLES UNDER THE PAYNE-ALDRICH LAW, THE PENDING BILL, AND THE LA FOLLETTE SUBSTITUTE COMPARED WITH THE AMERICAN CONVERSION COST AS FOUND BY THE TARIFF BOARD — Continued

Sample No.	Kind of cloth	Square yards per pound	Kind of finish	Total American cost of conversion per square yard	Total English selling price per square yard	Duty per square yard under Payne-Aldrich Act	Duty per square yard under Senate bil.		Duty per square yard under La Follette substitute	
							Per cent	Amount	Per cent	Amount
49	do.	10.68	do.	{ \$0.0494 .0676 }	{ \$0.1079 (*) }	\$0.0600	25	\$0.0270	22½	\$0.0243
50	Organdy	16.30	Bleached and printed.	.0594	.1030	.0275	30	.0155	22½	.0103
51	Scrim	5.41	Registered print.	.0256	.1429	.0525	15	.0214	10	.0071
52	Creme kimona cloth	4.72	Creped, bleached, and printed.	.0570	(*)	.0350	15	.0163	5	.0059
53	Drapery twill	4.38	Printed.	.0502	.1069	.0700	15	.0238	12½	.0136
54	Cotton serge	3.07	do.	.0624	.1584	.0450	25	.0210	5	.0069
55	Galatea cloth	2.80	Bleached and printed.	.0397	.0839	.0510	25	.0317	22½	.0189
56	Printed dimity	10.46	do.	.0518	.1151	.0500	27½	.0317	25	.0288
57	Fancy dimity	11.19	do.	.0735	.0908	.0500	25	.0227	25	.0237
58	Dimity check	9.14	do.	.0417	.1328	.0600	20	.0285	25	.0342
59	Madras shirting	5.65	do.	.0631	.1295	.0900	25	.0394	25	.0324
60	Leno, fancy	8.94	do.	.0565	.0819	.0464	25	.0205	25	.0205
61	Book cloth	3.09	Filled and dyed	*.0145	.1384	.0577	15	.0160	25	.0346
62	Window holland	2.99	do.	*.0207	.1066	.0554	15	.0160	25	.0287
63	Chambray	5.22	Ordinary	.0654	.1007	.0525	15	.0161	17½	.0176
64	Pongee	6.41	Mercurized and dyed.	.0596						

\* Not obtained. \* Cost estimated from mills manufacturing similar construction and does not include the cost of filling and glazing.

# COTTON COSTS AND TARIFF RATES

DUTIES ON THE TARIFF BOARD COTTON SAMPLES UNDER THE PAYNE-ALDRICH LAW, THE PENDING BILL, AND THE LA FOLLETTE SUBSTITUTE COMPARED WITH THE AMERICAN CONVERSION COST AS FOUND BY THE TARIFF BOARD — *Continued*

Sample No.	Kind of cloth	Square yards per pound	Kind of finish	Total American cost of conversion per square yard	Total English selling price per square yard	Duty per square yard under Payne-Aldrich Act	Duty per square yard under Senate bill		Duty per square yard under La Follette substitute	
							Per cent	Amount	Per cent	Amount
65	Seizette.....	6.69	..do.....	{ \$0.0850 .0884 .0839 .0840 .0854 .0836 .0811 .0841	{ \$0.1310 .1299 .1299 .1299 .1299 .1299 .1299 .1299	\$0.0700	22½	\$0.0295	17½	\$0.0129
66	Pongee.....	6.97	..do.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0700	22½	.0292	17½	.0227
67	Poplin.....	4.59	..do.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0800	22½	.0373	12½	.0207
68	Rapp.....	1.82	Ordinary.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	1.000	12½	.0318	25	.0836
69	Sateen.....	4.53	Dyed and schirmered.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0475	15	.0152	10	.0101
70	..do.....	4.08	Mercerized.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0800	20	.0287	10	.0143
71	Cambray gingham.....	4.72	Ordinary.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0375	15	.0132	10	.0088
72	..do.....	4.43	..do.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0375	15	.0141	10	.0094
73	Cheviot shirting.....	3.06	Ordinary.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0275	12½	.0147	10	.0118
74	Madras.....	4.08	..do.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0375	15	.0158	10	.0105
75	Gingham.....	5.04	Ordinary hot calendered.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0375	15	.0157	25	.0229
76	Outing flannel.....	3.51	Napped.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0350	12½	.0114	10	.0091
77	Ticking.....	3.78	Ordinary.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.1000	12½	.0230	10	.0200
78	Denim.....	3.97	..do.....	{ .0839 .0840 .0854 .0836 .0811 .0841	{ .1299 .1299 .1299 .1299 .1299 .1299	.0700	12½	.0206	10	.0165

\* French selling price.

# COMMERCIAL POLICY

DUTIES ON THE TARIFF BOARD COTTON SAMPLES UNDER THE PAYNE-ALDRICH LAW, THE PENDING BILL, AND THE LA FOLLETTE SUBSTITUTE COMPARED WITH THE AMERICAN CONVERSION COST AS FOUND BY THE TARIFF BOARD — *Continued*

Sample No.	Kind of cloth	Square yards per pound	Kind of finish	Total American cost of conversion per square yard	Total English selling price per square yard	Duty per square yard under Payne-Aldrich Act	Duty per square yard under Senate bill		Duty per square yard under La Follette substitute	
							Per cent	Amount	Per cent	Amount
79	Cotton plaids.....	3.55	do.....	\$0.0312	\$0.1269	\$0.0500	12½	\$0.0159	10	\$0.0127
80	Scotch gingham.....	6.90	do.....	.0809	.1191	.0500	22½	.0267	25	.0298
81	Fine gingham.....	6.87	do.....	.0663	.1131	.0500	22½	.0254	25	.0283
82	Gingham.....	4.77	do.....	.0326	.1231	.0375	15	.0185	10	.0123
83	Fancy gingham.....	5.03	do.....	.0416	.1391	.0800	15	.0239	25	.0339
84	Tissue.....	7.38	do.....	( <sup>1</sup> )	.0973	.0425	22½	.0218	25	.0243
85	do.....	7.48	do.....	( <sup>1</sup> )	.1192	.0425	20	.0238	25	.0298
86	Fancy wash fabric.....	5.44	do.....	.0416	.1571	.0800	15	.0236	25	.0378
87	Tissue or fancy wash fabric.....	8.22	do.....	.0904	.1487	.0825	27½	.0409	25	.0372
88	Fancy wash fabric.....	7.50	Ordinary.....	( <sup>1</sup> )	.2469	.1300	22½	.0556	25	.0617
89	Turkey red damask.....	2.67	do.....	.0703	.1759	.0704	25	.0440	30	.0528
90	Carduoy.....	1.83	Cut and dyed.....	.0968	.4879	.3020	.....	.....	40	.1952
91	Velveteen.....	2.54	do.....	.3013	.3305	.2026	.....	.....	40	.1322
92	Cotton velvet.....	1.28	do.....	.2454	( <sup>1</sup> )	.....	.....	.....	40	.....
93	Cotton tapestry.....	1.10	Ordinary.....	.3196	.4714	.2357	.....	.....	40	.1886
94	Cotton voile.....	8.74	do.....	.5431	.1223	.0550	.....	.....	.....	.....
95	Novelty gingham.....	6.74	Ordinary; calendered.....	.0561	.1448	.1234	.....	.....	30	.0434
96	Silk gingham.....	6.26	Ordinary.....	.0619	.1263	.1269	.....	.....	15	.0234
97	do.....	7.24	do.....	.0644	.2458	.2210	.....	.....	15	.0369

\* Not obtained. \* French selling price.

# COTTON COSTS AND TARIFF RATES

DUTIES ON THE TARIFF BOARD COTTON SAMPLES UNDER THE PAYNE-ALDRICH LAW, THE PENDING BILL, AND THE LA FOLLETTE SUBSTITUTE COMPARED WITH THE AMERICAN CONVERSION COST AS FOUND BY THE TARIFF BOARD — *Continued*

Sample No.	Kind of Cloth	Square yards per pound	Kind of finish	Total American cost of conversion per square yard	Total English selling price per square yard	Duty per square yard under Payne-Aldrich Act	Duty per square yard under Senate bill		Duty per square yard under La Follette substitute	
							Per cent	Amount	Per cent	Amount
98	Silk mull.....	13.81	Dyed.....	{ \$0.0683 .0632 .0595	{ *\$0.1608 .1742	\$0.2245	.....	.....	20	\$0.0322
99	Dotted silk mull.....	12.13	..do.....	.1028	.1866	.2566	.....	.....	30	.0623
100	Jacquard silk mull.....	11.54	..do.....	.0653		.0840	.....	.....	35	.0653

\* As there is no English competition of samples 98, 99, and 100, and this class of goods is exported to England from America, the rate of the present duty is shown by taking the value equal to the lowest American cost obtained plus the cost of finishing and adding 8 per cent, as provided by law to make the value as the minimum basis in applying duty to foreign consigned goods.

## APPENDIX VII

### ANTI-DUMPING LEGISLATION IN CANADA AND THE UNITED STATES

#### 1. CANADIAN LAW<sup>1</sup>

SEC. 6. In the case of articles exported to Canada of a class or kind made or produced in Canada if the export or actual selling price to an importer in Canada be less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada there shall, in addition to the duties otherwise established, be levied, collected and paid on such article, on its importation into Canada, a special duty (or dumping duty) equal to the difference between the said selling price of the article for export and the said fair market value thereof for home consumption; and such special duty (or dumping duty) shall be levied, collected and paid on such article although it is not otherwise dutiable.

Provided that the said special duty shall not exceed fifteen per cent *ad valorem* in any case;

Provided also that the following goods shall be exempt from such special duty, viz.:—

(a) Goods whereon the duties otherwise established are equal to fifty per cent *ad valorem*;

(b) Goods of a class subject to excise duty in Canada;

(c) Sugar refined in the United Kingdom;

(d) Binder twine or twine for harvest binders manufactured from New Zealand hemp, istle or tampico fibre, sisal grass, or sunn, or a mixture of any two or more of them, of single ply and measuring not exceeding six hundred feet to the pound.

Provided further that excise duties shall be disregarded in estimating the market value of goods for the purposes of special duty when the goods are entitled to entry under the British Preferential Tariff.

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<sup>1</sup> Provisions of the Canadian Customs Tariff, 1909, in regard to special or dumping duty.

## ANTI-DUMPING LEGISLATION

(2) "Export price" or "selling price" in this section shall be held to mean and include the exporter's price for the goods, exclusive of all charges thereon after their shipment from the place whence exported directly to Canada.

(3) If at any time it appears to the satisfaction of the Governor in Council on a report from the Minister of Customs, that the payment of the special duty by this section provided for is being evaded by the shipment of goods on consignment without sale prior to such shipment, the Governor in Council may in any case or class of cases authorize such action as is deemed necessary to collect on such goods or any of them the same special duty as if the goods had been sold to an importer in Canada prior to their shipment to Canada.

(4) If the full amount of any special duty of customs is not paid on goods imported, the customs entry thereof shall be amended and the deficiency paid upon the demand of the Collector of Customs.

(5) The Minister of Customs may make such regulations as are deemed necessary for carrying out the provisions of this section and for the enforcement thereof.

(6) Such regulations may provide for the temporary exemption from special duty of any article or class of articles, when it is established to the satisfaction of the Minister of Customs that such articles are not made or sold in Canada in substantial quantities, and offered for sale to all purchasers on equal terms, under like conditions, having regard to the custom and usage of trade.

(7) Such regulations may also provide for the exemption from special duty of any article when the difference between the fair market value and the selling price thereof to the importer as aforesaid amounts only to a small percentage of its fair market value.

### 2. UNITED STATES LAW<sup>2</sup>

SEC. 800. That when used in this title the term "person" includes partnerships, corporations, and associations.

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<sup>2</sup> Provisions of "An Act To increase the revenue and for other purposes" enacted by the Congress of the United States and approved by the President September 8, 1916, in regard to unfair competition.

## COMMERCIAL POLICY

SEC. 801. That it shall be unlawful for any person importing or assisting in importing any articles from any foreign country into the United States, commonly and systematically to import, sell or cause to be imported or sold such articles within the United States at a price substantially less than the actual market value or wholesale price of such articles, at the time of exportation to the United States, in the principal markets of the country of their production, or of other foreign countries to which they are commonly exported after adding to such market value or wholesale price, freight, duty, and other charges and expenses necessarily incident to the importation and sale thereof in the United States: *Provided*, That such act or acts be done with the intent of destroying or injuring an industry in the United States, or of preventing the establishment of an industry in the United States, or of restraining or monopolizing any part of trade and commerce in such articles in the United States.

Any person who violates or combines or conspires with any other person to violate this section is guilty of a misdemeanor, and, on conviction thereof, shall be punished by a fine not exceeding \$5,000, or imprisonment not exceeding one year, or both, in the discretion of the court.

Any person injured in his business or property by reason of any violation of, or combination or conspiracy to violate, this section, may sue therefor in the district court of the United States for the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages sustained, and the cost of the suit, including a reasonable attorney's fee.

The foregoing provisions shall not be construed to deprive the proper State courts of jurisdiction in actions for damages thereunder.

SEC. 802. That if any article produced in a foreign country is imported into the United States under any agreement, understanding, or condition that the importer thereof or any other person in the United States shall not use, purchase, or deal in, or shall be restricted in his using, purchasing, or dealing in, the articles of any other person, there shall be levied, collected, and paid thereon, in addition to the duty otherwise imposed by law, a special duty equal to double the amount of such duty: *Provided*, That the above shall not be



## ANTI-DUMPING LEGISLATION

interpreted to prevent the establishing in this country on the part of a foreign producer of an exclusive agency for the sale in the United States of the products of said foreign producer or merchant, nor to prevent such exclusive agent from agreeing not to use, purchase, or deal in the article of any other person, but this proviso shall not be construed to exempt from the provisions of this section any article imported by such exclusive agent if such agent is required by the foreign producer or if it is agreed between such agent and such foreign producer that any agreement, understanding or condition set out in this section shall be imposed by such agent upon the sale or other disposition of such article to any person in the United States.

SEC. 803. That the Secretary of the Treasury shall make such rules and regulations as are necessary for the carrying out of the provisions of section eight hundred and two.

SEC. 804. That whenever any country, dependency, or colony shall prohibit the importation of any article the product of the soil or industry of the United States and not injurious to health or morals, the President shall have power to prohibit, during the period such prohibition is in force, the importation into the United States of similar articles, or in case the United States does not import similar articles from that country, then other articles, the products of such country, dependency, or colony.

And the Secretary of the Treasury, with the approval of the President, shall make such rules and regulations as are necessary for the execution of the provisions of this section.

## APPENDIX VIII

### EXPORT ASSOCIATIONS ACT<sup>1</sup>

*Be it enacted, etc.,* That the words "export trade" wherever used in this Act mean solely trade or commerce in goods, wares, or merchandise exported, or in the course of being exported from the United States or any Territory thereof to any foreign nation; but the words "export trade" shall not be deemed to include the production, manufacture, or selling for consumption or for resale, within the United States or any Territory thereof, of such goods, wares, or merchandise, or any act in the course of such production, manufacture, or selling for consumption or for resale.

That the words "trade within the United States" wherever used in this Act mean trade or commerce among the several States or in any Territory of the United States, or in the District of Columbia, or between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or between the District of Columbia and any State or States.

That the word "association" wherever used in this Act means any corporation or combination, by contract or otherwise, of two or more persons, partnerships, or corporations.

SEC. 2. That nothing contained in the Act entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," approved July second, eighteen hundred and ninety, shall be construed as declaring to be illegal an association entered into for the sole purpose of engaging in export trade and actually engaged solely in such export trade, or an agreement made or act done in the course of export trade by such association, provided such association, agreement, or act is not in restraint of trade within the United States, and is not in restraint of the export trade of any domestic competitor of such association: *And provided further,* That such

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<sup>1</sup>"An Act To promote export trade, and for other purposes," commonly known as the Webb Act, approved by the President April 10, 1918.

## EXPORT ASSOCIATIONS ACT

association does not, either in the United States or elsewhere, enter into any agreement, understanding, or conspiracy, or do any act which artificially or intentionally enhances or depresses prices within the United States of commodities of the class exported by such association, or which substantially lessens competition within the United States or otherwise restrains trade therein.

SEC. 3. That nothing contained in section seven of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October fifteenth, nineteen hundred and fourteen, shall be construed to forbid the acquisition or ownership by any corporation of the whole or any part of the stock or other capital of any corporation organized solely for the purpose of engaging in export trade, and actually engaged solely in such export trade, unless the effect of such acquisition or ownership may be to restrain trade or substantially lessen competition within the United States.

SEC. 4. That the prohibition against "unfair methods of competition" and the remedies provided for enforcing said prohibition contained in the Act entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September twenty-sixth, nineteen hundred and fourteen, shall be construed as extending to unfair methods of competition used in export trade against competitors engaged in export trade, even though the acts constituting such unfair methods are done without the territorial jurisdiction of the United States.

SEC. 5. That every association now engaged solely in export trade, within sixty days after the passage of this Act, and every association entered into hereafter which engages solely in export trade, within thirty days after its creation, shall file with the Federal Trade Commission a verified written statement setting forth the location of its offices or places of business and the names and addresses of all its officers and of all its stockholders or members, and if a corporation, a copy of its certificate or articles of incorporation and by-laws, and if unincorporated, a copy of its articles or contract of association, and on the first day of January of each year thereafter it shall make a like statement of the location of its offices or places of business and the names and addresses of all its

## COMMERCIAL POLICY

officers and of all its stockholders or members and of all amendments to and changes in its articles or certificate of incorporation or in its articles or contract of association. It shall also furnish to the commission such information as the commission may require as to its organization, business, conduct, practices, management, and relation to other associations, corporations, partnerships, and individuals. Any association which shall fail so to do shall not have the benefit of the provisions of section two and section three of this Act, and it shall also forfeit to the United States the sum of \$100 for each and every day of the continuance of such failure, which forfeiture shall be payable into the Treasury of the United States, and shall be recoverable in a civil suit in the name of the United States brought in the district where the association has its principal office, or in any district in which it shall do business. It shall be the duty of the various district attorneys, under the direction of the Attorney General of the United States, to prosecute for the recovery of the forfeiture. The costs and expenses of such prosecution shall be paid out of the appropriation for the expenses of the courts of the United States.

Whenever the Federal Trade Commission shall have reason to believe that an association or any agreement made or act done by such association is in restraint of trade within the United States or in restraint of the export trade of any domestic competitor of such association, or that an association either in the United States or elsewhere has entered into any agreement, understanding, or conspiracy, or done any act which artificially or intentionally enhances or depresses prices within the United States of commodities of the class exported by such association, or which substantially lessens competition within the United States or otherwise restrains trade therein, it shall summon such association, its officers, and agents to appear before it, and thereafter conduct an investigation into the alleged violations of law. Upon investigation, if it shall conclude that the law has been violated, it may make to such association recommendations for the readjustment of its business, in order that it may thereafter maintain its organization and management and conduct its business in accordance with law. If such association fails to comply with the recommendations of the Federal Trade Commission, said commis-

## EXPORT ASSOCIATIONS ACT

sion shall refer its findings and recommendations to the Attorney General of the United States for such action thereon as he may deem proper.

For the purpose of enforcing these provisions the Federal Trade Commission shall have all the powers, so far as applicable, given it in "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes."

## APPENDIX IX

### COVENANT OF THE LEAGUE OF NATIONS<sup>1</sup>

In order to promote international coöperation and to achieve international peace and security, by the acceptance of obligations not to resort to war, by the prescription of open, just and honorable relations between nations, by the firm establishment of the understandings of international law as to actual rule of conduct among Governments, and by the maintenance of justice and a scrupulous respect for all treaty obligations in the dealings of organized peoples with one another, the high contracting parties agree to this covenant of the League of Nations.

#### ARTICLE I

The original members of the League of Nations shall be those of the signatories which are named in the annex to this covenant and also such of those other States named in the annex as shall accede without reservation to this covenant. Such accessions shall be effected by a declaration deposited with the Secretariat within two months of the coming into force of the covenant. Notice thereof shall be sent to all other members of the League.

Any fully self-governing State, dominion or colony not named in the annex may become a member of the League if its admission is agreed to by two-thirds of the Assembly, provided that it shall give effective guarantees of its sincere intention to observe its international obligations, and shall accept such regulations as may be prescribed by the League in regard to its military and naval forces and armaments.

Any member of the League may, after two years' notice of its intention so to do, withdraw from the League, provided that all its international obligations and all its obligations under this covenant shall have been fulfilled at the time of its withdrawal.

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<sup>1</sup> Adopted by the Peace Conference in plenary session in Paris, April 28, 1919.

# COVENANT OF THE LEAGUE OF NATIONS

## ARTICLE II

The action of the League under this covenant shall be effected through the instrumentality of an Assembly and of a Council, with a permanent Secretariat.

## ARTICLE III

The Assembly shall consist of representatives of the members of the League.

The Assembly shall meet at stated intervals, and from time to time as occasion may require, at the seat of the League or at such other place as may be decided upon.

The Assembly may deal at its meetings with any matter within the sphere of action of the League or affecting the peace of the world.

At meetings of the Assembly, each member of the League shall have one vote, and may have not more than three representatives.

## ARTICLE IV

The Council shall consist of representatives of the United States of America, of the British Empire, of France, of Italy, and of Japan, together with representatives of four other members of the League. These four members of the League shall be selected by the Assembly from time to time in its discretion. Until the appointment of the representatives of the four members of the League first selected by the Assembly, representatives of Belgium, Brazil, Greece, and Spain shall be members of the Council.

With the approval of the majority of the Assembly, the Council may name additional members of the League whose representatives shall always be members of the Council; the Council with like approval may increase the number of members of the League to be selected by the Assembly for representation on the Council.

The Council shall meet from time to time as occasion may require, and at least once a year, at the seat of the League, or at such other place as may be decided upon.

The Council may deal at its meetings with any matter within the sphere of action of the League or affecting the peace of the world.

## COMMERCIAL POLICY

Any member of the League not represented on the Council shall be invited to send a representative to sit as a member at any meeting of the Council during the consideration of matters specially affecting the interests of that member of the League.

At meetings of the Council, each member of the League represented on the Council shall have one vote, and may have not more than one representative.

### ARTICLE V

Except where otherwise expressly provided in this covenant, or by the terms of this treaty,<sup>2</sup> decisions at any meeting of the Assembly or of the Council shall require the agreement of all the members of the League represented at the meeting.

All matters of procedure at meetings of the Assembly or of the Council, the appointment of committees to investigate particular matters, shall be regulated by the Assembly or by the Council and may be decided by a majority of the members of the League represented at the meeting. The first meeting of the Assembly and the first meeting of the Council shall be summoned by the President of the United States of America.

### ARTICLE VI

The permanent Secretariat shall be established at the seat of the League. The Secretariat shall comprise a Secretary-General and such secretaries and staff as may be required.

The first Secretary-General shall be the person named in the annex; thereafter the Secretary-General shall be appointed by the Council, with the approval of the majority of the Assembly.

The secretaries and the staff of the Secretariat shall be appointed by the Secretary-General with the approval of the Council.

The Secretary-General shall act in that capacity at all meetings of the Assembly and of the Council.

The expenses of the Secretariat shall be borne by the members of the League in accordance with the apportionment of the expenses of the International Bureau of the Universal Postal Union.

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<sup>2</sup> The treaty of peace, of which this covenant forms a part; in other portions of the treaty certain duties are assigned to the Council of the League of Nations.



# COVENANT OF THE LEAGUE OF NATIONS

## ARTICLE VII

The seat of the League is established at Geneva.

The Council may at any time decide that the seat of the League shall be established elsewhere.

All positions under or in connection with the League, including the Secretariat, shall be open equally to men and women.

Representatives of the members of the League and officials of the League when engaged on the business of the League shall enjoy diplomatic privileges and immunities.

The buildings and other property occupied by the League or its officials, or by representatives attending its meetings, shall be inviolable.

## ARTICLE VIII

The members of the League recognize that the maintenance of a peace requires the reduction of national armaments to the lowest point consistent with the national safety and the enforcement by common action of international obligations.

The Council, taking account of the geographical situation and circumstances of each State, shall formulate plans for such reduction for the consideration and action of the several Governments.

Such plans shall be subject to reconsideration and revision at least every ten years.

After these plans shall have been adopted by the several Governments, limits of armaments therein fixed shall not be exceeded without the concurrence of the Council.

The members of the League agree that the manufacture by private enterprise of munitions and implements of war is open to grave objections. The Council shall advise how the evil effects attendant upon such manufacture can be prevented, due regard being had to the necessities of those members of the League which are not able to manufacture the munitions and implements of war necessary for their safety.

The members of the League undertake to interchange full and frank information as to the scale of their armaments, their military and naval programmes and the condition of such of their industries as are adaptable to warlike purposes.

## COMMERCIAL POLICY

### ARTICLE IX

A permanent commission shall be constituted to advise the Council on the execution of the provisions of Articles I and VIII and on military and naval questions generally.

### ARTICLE X

The members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all members of the League. In case of any such aggression or in case of any threat or danger of such aggression, the Council shall advise upon the means by which this obligation shall be fulfilled.

### ARTICLE XI

Any war or threat of war, whether immediately affecting any of the members of the League or not, is hereby declared a matter of concern to the whole League, and the League shall take any action that may be deemed wise and effectual to safeguard the peace of nations. In case any such emergency should arise, the Secretary-General shall, on the request of any member of the League, forthwith summon a meeting of the Council.

It is also declared to be the fundamental right of each member of the League to bring to the attention of the Assembly or of the Council any circumstance whatever affecting international relations which threatens to disturb either the peace or the good understanding between nations upon which peace depends.

### ARTICLE XII

The members of the League agree that if there should arise between them any dispute likely to lead to a rupture, they will submit the matter either to arbitration or to inquiry by the Council, and they agree in no case to resort to war until three months after the award by the arbitrators or the report by the Council.

In any case under this Article the award of the arbitrators shall be made within a reasonable time, and the report of the Council shall be made within six months after the submission of the dispute.

# COVENANT OF THE LEAGUE OF NATIONS

## ARTICLE XIII

The members of the League agree that whenever any dispute shall arise between them which they recognize to be suitable for submission to arbitration and which cannot be satisfactorily settled by diplomacy, they will submit the whole subject matter to arbitration. Disputes as to the interpretation of a treaty, as to any question of international law, as to the existence of any fact, which, if established, would constitute a breach of any international obligation, or as to the extent and nature of the reparation to be made for any such breach, are declared to be among those which are generally suitable for submission to arbitration. For the consideration of any such dispute the court of arbitration to which the case is referred shall be the court agreed on by the parties to the dispute or stipulated in any convention existing between them.

The members of the League agree that they will carry out in full good faith any award that may be rendered and that they will not resort to war against a member of the League which complies therewith. In the event of any failure to carry out such an award, the Council shall propose what steps should be taken to give effect thereto.

## ARTICLE XIV

The Council shall formulate and submit to the members of the League for adoption plans for the establishment of a permanent court of international justice. The court shall be competent to hear and determine any dispute of an international character which the parties thereto submit to it. The court may also give an advisory opinion upon any dispute or question referred to it by the Council or by the Assembly.

## ARTICLE XV

If there should arise between members of the League any dispute likely to lead to a rupture, which is not submitted to arbitration as above, the members of the League agree that they will submit the matter to the Council. Any party to the dispute may effect such submission by giving notice of the existence of the dispute to the Secretary-General, who will make all necessary arrangements for a full investigation and

## COMMERCIAL POLICY

consideration thereof. For this purpose the parties to the dispute will communicate to the Secretary-General, as promptly as possible, statements of their case, all the relevant facts and papers; the Council may forthwith direct the publication thereof.

The Council shall endeavor to effect a settlement of any dispute, and if such efforts are successful, a statement shall be made public, giving such facts and explanations regarding the dispute and terms of settlement thereof as the Council may deem appropriate.

If the dispute is not thus settled, the Council either unanimously or by a majority vote shall make and publish a report containing a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto.

Any member of the League represented on the Council may make public a statement of the facts of the dispute and of its conclusions regarding the same.

If a report by the Council is unanimously agreed to by the members thereof other than the representatives of one or more of the parties to the dispute, the members of the League agree that they will not go to war with any party to the dispute which complies with the recommendations of the report.

If the Council fails to reach a report which is unanimously agreed to by the members thereof, other than the representatives of one or more of the parties to the dispute, the members of the League reserve to themselves the right to take such action as they shall consider necessary for the maintenance of right and justice.

If the dispute between the parties is claimed by one of them, and is found by the Council, to arise out of a matter which by international law is solely within the domestic jurisdiction of that party, the Council shall so report, and shall make no recommendations as to its settlement.

The Council may in any case under this Article refer the dispute to the Assembly. The dispute shall be so referred at the request of either party to the dispute, provided that such request be made within fourteen days after the submission of the dispute to the Council.

In any case referred to the Assembly all the provisions of

## COVENANT OF THE LEAGUE OF NATIONS

this Article and of Article XII relating to the action and powers of the Council shall apply to the action and powers of the Assembly, provided that a report made by the Assembly, if concurred in by the representatives of those members of the League represented on the Council and of a majority of the other members of the League, exclusive in each case of the representatives of the parties to the dispute, shall have the same force as a report by the Council concurred in by all the members thereof other than the representatives of one or more of the parties to the dispute.

### ARTICLE XVI

Should any member of the League resort to war in disregard of its covenants under Articles XII, XIII, or XV, it shall *ipso facto* be deemed to have committed an act of war against all other members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State, and the prevention of all financial, commercial, or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a member of the League or not.

It shall be the duty of the Council in such case to recommend to the several Governments concerned what effective military or naval forces the members of the League shall severally contribute to the armaments of forces to be used to protect the covenants of the League.

The members of the League agree, further, that they will mutually support one another in the financial and economic measures which are taken under this Article, in order to minimize the loss and inconvenience resulting from the above measures, and that they will mutually support one another in resisting any special measures aimed at one of their number by the covenant-breaking State and that they will take the necessary steps to afford passage through their territory to the forces of any of the members of the League which are co-operating to protect the covenants of the League.

Any member of the League which has violated any covenant of the League may be declared to be no longer a member of

## COMMERCIAL POLICY

the League by a vote of the Council concurred in by the representatives of all the other members of the League represented thereon.

### ARTICLE XVII

In the event of a dispute between a member of the League and a State which is not a member of the League, or between States not members of the League, the State or States not members of the League shall be invited to accept the obligations of membership in the League for the purposes of such dispute, upon such conditions as the Council may deem just. If such invitation is accepted, the provisions of Articles XII to XVI inclusive shall be applied with such modifications as may be deemed necessary by the Council.

Upon such invitation being given, the Council shall immediately institute an inquiry into the circumstances of the dispute and recommend such action as may seem best and most effectual in the circumstances.

If a State so invited shall refuse to accept the obligations of membership in the League for the purposes of such dispute, and shall resort to war against a member of the League, the provisions of Article XVI shall be applicable as against the State taking such action.

If both parties to the dispute, when so invited, refuse to accept the obligations of membership in the League for the purposes of such dispute, the Council may take such measures and make such recommendations as will prevent hostilities and will result in the settlement of the dispute.

### ARTICLE XVIII

Every convention or international engagement entered into henceforward by any member of the League shall be forthwith registered with the Secretariat, and shall, as soon as possible, be published by it. No such treaty or international engagement shall be binding until so registered.

### ARTICLE XIX

The Assembly may, from time to time, advise the reconsideration by members of the League of treaties which have

## COVENANT OF THE LEAGUE OF NATIONS

become inapplicable, and the consideration of international conditions of which continuance might endanger the peace of the world.

### ARTICLE XX

The members of the League severally agree that this covenant is accepted as abrogating all obligations or understandings *inter se* which are inconsistent with the terms thereof, and solemnly undertake that they will not hereafter enter into any engagements inconsistent with the terms thereof.

In case a member of the League shall, before becoming a member of the League, have undertaken any obligations inconsistent with the terms of this covenant, it shall be the duty of such member to take immediate steps to procure its release from such obligations.

### ARTICLE XXI

Nothing in this covenant shall be deemed to affect the validity of international engagements such as treaties of arbitration or regional understandings like the Monroe Doctrine for securing the maintenance of peace.

### ARTICLE XXII

To those colonies and territories which as a consequence of the late war have ceased to be under the sovereignty of the States which formerly governed them, and which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, there should be applied the principle that the wellbeing and development of such peoples form a sacred trust of civilization, and that securities for the performance of this trust should be embodied in this covenant.

The best method of giving practicable effect to this principle is that the tutelage of such peoples be entrusted to advanced nations who, by reasons of their resources, their experience, or their geographical position, can best undertake this responsibility, and who are willing to accept it, and that this tutelage should be exercised by them as mandatories on behalf of the League.

The character of the mandate must differ according to the

## COMMERCIAL POLICY

stage of development or the people, the geographical situation of the territory, its economic condition, and other similar circumstances. Certain communities formerly belonging to the Turkish Empire have reached a stage of development where their existence as independent nations can be provisionally recognized subject to the rendering of administrative advice and assistance by a mandatory until such time as they are able to stand alone. The wishes of these communities must be a principal consideration in the selection of the mandatory.

Other peoples, especially those of Central Africa, are at such a stage that the mandatory must be responsible for the administration of the territory under conditions which will guarantee freedom of conscience or religion subject only to the maintenance of public order and morals, the prohibition of abuses such as the slave trade, the arms traffic, and the liquor traffic, and the prevention of the establishment of fortifications or military and naval bases and of military training of the natives for other than police purposes and the defense of territory, and will also secure equal opportunities for the trade and commerce of other members of the League.

There are territories, such as Southwest Africa and certain of the South Pacific islands, which, owing to the sparseness of their population or their small size or their remoteness from the centers of civilization or their geographical contiguity to the territory of the mandatory and other circumstances can be best administered under the laws of the mandatory as integral portions of its territory, subject to the safeguards above mentioned in the interests of the indigenous population. In every case of mandate, the mandatory shall render to the Council an annual report in reference to the territory committed to its charge.

The degree of authority, control, or administration to be exercised by the mandatory, shall, if not previously agreed upon by the members of the League, be explicitly defined in each case by the Council.

A permanent commission shall be constituted to receive and examine the annual reports of the mandatories and to advise the Council on all matters relating to the observance of the mandates.



# COVENANT OF THE LEAGUE OF NATIONS

## ARTICLE XXIII

Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the members of the League (a) will endeavor to secure and maintain fair and humane conditions of labor for men, women, and children, both in their own countries and in all countries to which their commercial and industrial relations extend, and for that purpose will establish and maintain the necessary international organizations; (b) undertake to secure just treatment of the native inhabitants of territories under their control; (c) will entrust the League with the general supervision over the execution of agreements with regard to the traffic in women and children, and the traffic in opium and other dangerous drugs; (d) will entrust the League with the general supervision of the trade in arms and ammunition with the countries in which the control of this traffic is necessary in the common interest; (e) will make provision to secure and maintain freedom of communication and of transit and equitable treatment for the commerce of all members of the League; in this connection the special necessities of the regions devastated during the war of 1914-1918 shall be in mind; (f) will endeavor to take steps in matters of international concern for the prevention and control of disease.

## ARTICLE XXIV

There shall be placed under the direction of the League all international bureaus already established by general treaties if the parties to such treaties consent. All such international bureaus and all commissions for the regulation of matters of international interest hereafter constituted shall be placed under the direction of the League.

In all matters of international interest which are regulated by general conventions, but which are not placed under the control of international bureaus or commissions, the Secretariat of the League shall, subject to the consent of the Council and if desired by the parties, collect and distribute all relevant information and shall render any other assistance which may be necessary or desirable.

The Council may include as part of the expenses of the

## COMMERCIAL POLICY

Secretariat the expenses of any bureau or commission which is placed under the direction of the League.

### ARTICLE XXV

The members of the League agree to encourage and promote the establishment and coöperation of duly authorized voluntary national Red Cross organizations having as purposes the improvement of health, the prevention of disease, and the mitigation of suffering throughout the world.

### ARTICLE XXVI

Amendments to this covenant will take effect when ratified by the members of the League whose representatives compose the Council and by a majority of the members of the League whose representatives compose the Assembly.

No such amendment shall bind any member of the League which signifies its dissent therefrom, but in that case it shall cease to be a member of the League.

### ANNEX TO THE COVENANT

#### *I. Original members of the League of Nations:*

##### *Signatories of the Treaty of Peace:*

United States of America, Belgium, Bolivia, Brazil, British Empire, Canada, Australia, South Africa, New Zealand, India, China, Cuba, Czecho-Slovakia, Ecuador, France, Greece, Guatemala, Haiti, Hedjaz, Honduras, Italy, Japan, Liberia, Nicaragua, Panama, Peru, Poland, Portugal, Rumania, Serbia, Siam, Uruguay.

##### *States invited to accede to the covenant:*

Argentine Republic, Chile, Colombia, Denmark, Netherlands, Norway, Paraguay, Persia, Salvador, Spain, Sweden, Switzerland, Venezuela.

*II. First Secretary-General of the League of Nations:* Sir James Eric Drummond.

## APPENDIX X

### ACT CREATING THE FEDERAL TRADE COMMISSION<sup>1</sup>

*Be it enacted, etc.,* That a commission is hereby created and established, to be known as the Federal Trade Commission (hereinafter referred to as the commission), which shall be composed of five commissioners, who shall be appointed by the President, by and with the advice and consent of the Senate. Not more than three of the commissioners shall be members of the same political party. The first commissioners appointed shall continue in office for terms of three, four, five, six, and seven years, respectively, from the date of the taking effect of this Act, the term of each to be designated by the President, but their successors shall be appointed for terms of seven years, except that any person chosen to fill a vacancy shall be appointed only for the unexpired term of the commissioner whom he shall succeed. The commission shall choose a chairman from its own membership. No commissioner shall engage in any other business, vocation, or employment. Any commissioner may be removed by the President for inefficiency, neglect of duty, or malfeasance in office. A vacancy in the commission shall not impair the right of the remaining commissioners to exercise all the powers of the commission.

The commission shall have an official seal, which shall be judicially noticed.

SEC. 2. That each commissioner shall receive a salary of \$10,000 a year, payable in the same manner as the salaries of the judges of the courts of the United States. The commission shall appoint a secretary, who shall receive a salary of \$5,000 a year, payable in like manner, and it shall have authority to employ and fix the compensation of such attorneys, special experts, examiners, clerks, and other employees as it may from time to time find necessary for the proper per-

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<sup>1</sup> Act of Congress approved September 26, 1914, entitled "An Act To create a Federal Trade Commission, to define its powers and duties, and for other purposes."

## COMMERCIAL POLICY

formance of its duties and as may be from time to time appropriated for by Congress.

With the exception of the secretary, a clerk to each commissioner, the attorneys, and such special experts and examiners as the commission may from time to time find necessary for the conduct of its work, all employees of the commission shall be a part of the classified civil service, and shall enter the service under such rules and regulations as may be prescribed by the commission and by the Civil Service Commission.

All of the expenses of the commission, including all necessary expenses for transportation incurred by the commissioners or by their employees under their orders, in making any investigation, or upon official business in any other places than in the city of Washington, shall be allowed and paid on the presentation of itemized vouchers therefor approved by the commission.

Until otherwise provided by law, the commission may rent suitable offices for its use.

The Auditor for the State and Other Departments shall receive and examine all accounts of expenditures of the commission.

SEC. 3. That upon the organization of the commission and election of its chairman, the Bureau of Corporations and the offices of Commissioner and Deputy Commissioner of Corporations shall cease to exist; and all pending investigations and proceedings of the Bureau of Corporations shall be continued by the commission.

All clerks and employees of the said bureau shall be transferred to and become clerks and employees of the commission at their present grades and salaries. All records, papers, and property of the said bureau shall become records, papers, and property of the commission, and all unexpended funds and appropriations for the use and maintenance of the said bureau, including any allotment already made to it by the Secretary of Commerce from the contingent appropriation for the Department of Commerce for the fiscal year nineteen hundred and fifteen, or from the departmental printing fund for the fiscal year nineteen hundred and fifteen, shall become funds and appropriations available to be expended by the commis-

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sion in the exercise of the powers, authority, and duties conferred on it by this Act.

The principal office of the commission shall be in the city of Washington, but it may meet and exercise all its powers at any other place. The commission may, by one or more of its members, or by such examiners as it may designate, prosecute any inquiry necessary to its duties in any part of the United States.

SEC. 4. That the words defined in this section shall have the following meaning when found in this Act, to wit:

"Commerce" means commerce among the several States or with foreign nations, or in any Territory of the United States or in the District of Columbia, or between any such Territory and another, or between any such Territory and any State or foreign nation, or between the District of Columbia and any State or Territory or foreign nation.

"Corporation" means any company or association incorporated or unincorporated, which is organized to carry on business for profit and has shares of capital or capital stock, and any company or association, incorporated or unincorporated, without shares of capital or capital stock, except partnerships, which is organized to carry on business for its own profit or that of its members.

"Documentary evidence" means all documents, papers, and correspondence in existence at and after the passage of this Act.

"Acts to regulate commerce" means the Act entitled "An Act to regulate commerce," approved February fourteenth, eighteen hundred and eighty-seven, and all Acts amendatory thereof and supplementary thereto.

"Antitrust acts" means the Act entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," approved July second, eighteen hundred and ninety; also the sections seventy-three to seventy-seven, inclusive, of an Act entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes," approved August twenty-seventh, eighteen hundred and ninety-four; and also the Act entitled "An Act to amend sections seventy-three and seventy-six of the Act of August twenty-seventh, eighteen hundred and ninety-four, entitled 'An Act to reduce taxation, to provide revenue for the Government, and

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for other purposes," approved February twelfth, nineteen hundred and thirteen.

SEC. 5. That unfair methods of competition in commerce are hereby declared unlawful.

The commission is hereby empowered and directed to prevent persons, partnerships, or corporations, except banks, and common carriers subject to the Acts to regulate commerce, from using unfair methods of competition in commerce.

Whenever the commission shall have reason to believe that any such person, partnership, or corporation has been or is using any unfair method of competition in commerce, and if it shall appear to the commission that a proceeding by it in respect thereof would be to the interest of the public, it shall issue and serve upon such person, partnership, or corporation a complaint stating its charges in that respect, and containing a notice of a hearing upon a day and at a place therein fixed at least thirty days after the service of said complaint. The person, partnership, or corporation so complained of shall have the right to appear at the place and time so fixed and show cause why an order should not be entered by the commission requiring such person, partnership, or corporation to cease and desist from the violation of the law so charged in said complaint. Any person, partnership, or corporation may make application, and upon good cause shown may be allowed by the commission, to intervene and appear in said proceeding by counsel or in person. The testimony in any such proceeding shall be reduced to writing and filed in the office of the commission. If upon such hearing the commission shall be of the opinion that the method of competition in question is prohibited by this Act, it shall make a report in writing in which it shall state its findings as to the facts, and shall issue and cause to be served on such person, partnership, or corporation an order requiring such person, partnership, or corporation to cease and desist from using such method of competition. Until a transcript of the record in such hearing shall have been filed in a circuit court of appeals of the United States, as hereinafter provided, the commission may at any time, upon such notice and in such manner as it shall deem proper, modify or set aside, in whole or in part, any report or any order made or issued by it under this section.

If such person, partnership, or corporation fails or neglects

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to obey such order of the commission while the same is in effect, the commission may apply to the circuit court of appeals of the United States, within any circuit where the method of competition in question was used or where such person, partnership, or corporation resides or carries on business, for the enforcement of its order, and shall certify and file with its application a transcript of the entire record in the proceeding, including all the testimony taken and the report and order of the commission. Upon such filing of the application and transcript the court shall cause notice thereof to be served upon such person, partnership, or corporation and thereupon shall have jurisdiction of the proceeding and of the question determined therein, and shall have power to make and enter upon the pleadings, testimony, and proceedings set forth in such transcript a decree affirming, modifying, or setting aside the order of the commission. The findings of the commission as to the facts, if supported by testimony, shall be conclusive. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the proceeding before the commission, the court may order such additional evidence to be taken before the commission and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The commission may modify its findings as to the facts, or make new findings, by reason of the additional evidence so taken, and it shall file such modified or new findings, which, if supported by testimony, shall be conclusive, and its recommendation, if any, for the modification or setting aside of its original order, with the return of such additional evidence. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari as provided in section two hundred and forty of the Judicial Code.

Any party required by such order of the commission to cease and desist from using such method of competition may obtain a review of such order in said circuit court of appeals by filing in the court a written petition praying that the order of the commission be set aside. A copy of such petition shall be forthwith served upon the commission, and thereupon the

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commission forthwith shall certify and file in the court a transcript of the record as hereinbefore provided. Upon the filing of the transcript the court shall have the same jurisdiction to affirm, set aside, or modify the order of the commission as in the case of an application by the commission for the enforcement of its order, and the findings of the commission as to the facts, if supported by testimony, shall in like manner be conclusive.

The jurisdiction of the circuit court of appeals of the United States to enforce, set aside, or modify orders of the commission shall be exclusive.

Such proceedings in the circuit court of appeals shall be given precedence over other cases pending therein, and shall be in every way expedited. No order of the commission or judgment of the court to enforce the same shall in any wise relieve or absolve any person, partnership, or corporation from any liability under the antitrust acts.

Complaints, orders, and other processes of the commission under this section may be served by anyone duly authorized by the commission, either (a) by delivering a copy thereof to the person to be served, or to a member of the partnership to be served, or to the president, secretary, or other executive officer or a director of the corporation to be served; or (b) by leaving a copy thereof at the principal office or place of business of such person, partnership, or corporation; or (c) by registering and mailing a copy thereof addressed to such person, partnership, or corporation at his or its principal office or place of business. The verified return by the person so serving said complaint, order, or other process setting forth the manner of said service shall be proof of the same, and the return post-office receipt for said complaint, order, or other process registered and mailed as aforesaid shall be proof of the service of the same.

SEC. 6. That the commission shall also have power —

(a) To gather and compile information concerning, and to investigate from time to time the organization, business, conduct, practices, and management of any corporation engaged in commerce, excepting banks and common carriers subject to the Act to regulate commerce, and its relation to other corporations and to individuals, associations, and partnerships.

(b) To require, by general or special orders, corporations



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engaged in commerce, excepting banks, and common carriers subject to the Act to regulate commerce, or any class of them, or any of them, respectively, to file with the commission in such form as the commission may prescribe annual or special, or both annual and special, reports or answers in writing to specific questions, furnishing to the commission such information as it may require as to the organization, business, conduct, practices, management, and relation to other corporations, partnerships, and individuals of the respective corporations filing such reports or answers in writing. Such reports and answers shall be made under oath, or otherwise, as the commission may prescribe, and shall be filed with the commission within such reasonable period as the commission may prescribe, unless additional time be granted in any case by the commission.

(c) Whenever a final decree has been entered against any defendant corporation in any suit brought by the United States to prevent and restrain any violation of the antitrust Acts, to make investigation, upon its own initiative, of the manner in which the decree has been or is being carried out, and upon the application of the Attorney General it shall be its duty to make such investigation. It shall transmit to the Attorney General a report embodying its findings and recommendations as a result of any such investigation, and the report shall be made public in the discretion of the commission.

(d) Upon the direction of the President or either House of Congress to investigate and report the facts relating to any alleged violations of the antitrust Acts by any corporation.

(e) Upon the application of the Attorney General to investigate and make recommendations for the readjustment of the business of any corporation alleged to be violating the antitrust Acts in order that the corporation may thereafter maintain its organization, management, and conduct of business in accordance with law.

(f) To make public from time to time such portions of the information obtained by it hereunder, except trade secrets and names of customers, as it shall deem expedient in the public interest; and to make annual and special reports to the Congress and to submit therewith recommendations for additional legislation; and to provide for the publication of its reports

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and decisions in such form and manner as may be best adapted for public information and use.

(g) From time to time to classify corporations and to make rules and regulations for the purpose of carrying out the provisions of this Act.

(h) To investigate, from time to time, trade conditions in and with foreign countries where associations, combinations, or practices of manufacturers, merchants, or traders, or other conditions, may affect the foreign trade of the United States, and to report to Congress thereon, with such recommendations as it deems advisable.

SEC. 7. That in any suit in equity brought by or under the direction of the Attorney General as provided in the antitrust Acts, the court may, upon the conclusion of the testimony therein, if it shall be then of opinion that the complainant is entitled to relief, refer said suit to the commission, as a master in chancery, to ascertain and report an appropriate form of decree therein. The commission shall proceed upon such notice to the parties and under such rules of procedure as the court may prescribe, and upon the coming in of such report such exceptions may be filed and such proceedings had in relation thereto as upon the report of a master in other equity causes, but the court may adopt or reject such report, in whole or in part, and enter such decree as the nature of the case may in its judgment require.

SEC. 8. That the several departments and bureaus of the Government when directed by the President shall furnish the commission, upon its request, all records, papers, and information in their possession relating to any corporation subject to any of the provisions of this Act, and shall detail from time to time such officials and employees to the commission as he may direct.

SEC. 9. That for the purposes of this Act the commission, or its duly authorized agent or agents, shall at all reasonable times have access to, for the purpose of examination, and the right to copy any documentary evidence of any corporation being investigated or proceeded against; and the commission shall have power to require by subpoena the attendance and testimony of witnesses and the production of all such documentary evidence relating to any matter under investigation. Any member of the commission may sign subpoenas, and mem-

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bers and examiners of the commission may administer oaths and affirmations, examine witnesses, and receive evidence.

Such attendance of witnesses, and the production of such documentary evidence, may be required from any place in the United States, at any designated place of hearing. And in case of disobedience to a subpoena the commission may invoke the aid of any court of the United States in requiring the attendance and testimony of witnesses and the production of documentary evidence.

Any of the district courts of the United States within the jurisdiction of which such inquiry is carried on may, in case of contumacy or refusal to obey a subpoena issued to any corporation or other person, issue an order requiring such corporation or other person to appear before the commission, or to produce documentary evidence if so ordered, or to give evidence touching the matter in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof.

Upon the application of the Attorney General of the United States, at the request of the commission, the district courts of the United States shall have jurisdiction to issue writs of mandamus commanding any person or corporation to comply with the provisions of this Act or any order of the commission made in pursuance thereof.

The commission may order testimony to be taken by deposition in any proceeding or investigation pending under this Act at any stage of such proceeding or investigation. Such depositions may be taken before any person designated by the commission and having power to administer oaths. Such testimony shall be reduced to writing by the person taking the deposition, or under his direction, and shall then be subscribed by the deponent. Any person may be compelled to appear and depose and to produce documentary evidence in the same manner as witnesses may be compelled to appear and testify and produce documentary evidence before the commission as hereinbefore provided.

Witnesses summoned before the commission shall be paid the same fees and mileage that are paid witnesses in the courts of the United States, and witnesses whose depositions are taken and the persons taking the same shall severally be en-

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titled to the same fees as are paid for like services in the courts of the United States.

No person shall be excused from attending and testifying or from producing documentary evidence before the commission or in obedience to the subpoena of the commission on the ground or for the reason that the testimony or evidence, documentary or otherwise, required of him may tend to criminate him or subject him to a penalty or forfeiture. But no natural person shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he may testify, or produce evidence, documentary or otherwise, before the commission in obedience to a subpoena issued by it: *Provided*, That no natural person so testifying shall be exempt from prosecution and punishment for perjury committed in so testifying.

SEC. 10. That any person who shall neglect or refuse to attend and testify, or to answer any lawful inquiry, or to produce documentary evidence, if in his power to do so, in obedience to the subpoena or lawful requirement of the commission, shall be guilty of an offense and upon conviction thereof by a court of competent jurisdiction shall be punished by a fine of not less than \$1,000 nor more than \$5,000, or by imprisonment for not more than one year, or by both such fine and imprisonment.

Any person who shall willfully make, or cause to be made, any false entry or statement of fact in any report required to be made under this Act, or who shall willfully make, or cause to be made, any false entry in any account, record, or memorandum kept by any corporation subject to this Act, or who shall willfully neglect or fail to make, or to cause to be made, full, true, and correct entries in such accounts, records, or memoranda of all facts and transactions appertaining to the business of such corporation, or who shall willfully remove out of the jurisdiction of the United States, or willfully mutilate, alter, or by any other means falsify any documentary evidence of such corporation, or who shall willfully refuse to submit to the commission or to any of its authorized agents, for the purpose of inspection and taking copies, any documentary evidence of such corporation in his possession or within his control, shall be deemed guilty of an offense against the United States, and shall be subject, upon conviction in

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any court of the United States of competent jurisdiction, to a fine of not less than \$1,000 nor more than \$5,000, or to imprisonment for a term of not more than three years, or to both such fine and imprisonment.

If any corporation required by this Act to file any annual or special report shall fail so to do within the time fixed by the commission for filing the same, and such failure shall continue for thirty days after notice of such default, the corporation shall forfeit to the United States the sum of \$100 for each and every day of the continuance of such failure, which forfeiture shall be payable into the Treasury of the United States, and shall be recoverable in a civil suit in the name of the United States brought in the district where the corporation has its principal office or in any district in which it shall do business. It shall be the duty of the various district attorneys, under the direction of the Attorney General of the United States, to prosecute for the recovery of forfeitures. The costs and expenses of such prosecution shall be paid out of the appropriation for the expenses of the courts of the United States.

Any officer or employee of the commission who shall make public any information obtained by the commission without its authority, unless directed by a court, shall be deemed guilty of a misdemeanor, and, upon conviction thereof, shall be punished by a fine not exceeding \$5,000, or by imprisonment not exceeding one year, or by fine and imprisonment, in the discretion of the court.

SEC. 11. Nothing contained in this Act shall be construed to prevent or interfere with the enforcement of the provisions of the antitrust Acts or the Acts to regulate commerce, nor shall anything contained in the Act be construed to alter, modify, or repeal the said antitrust Acts or the Acts to regulate commerce or any part or parts thereof.



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